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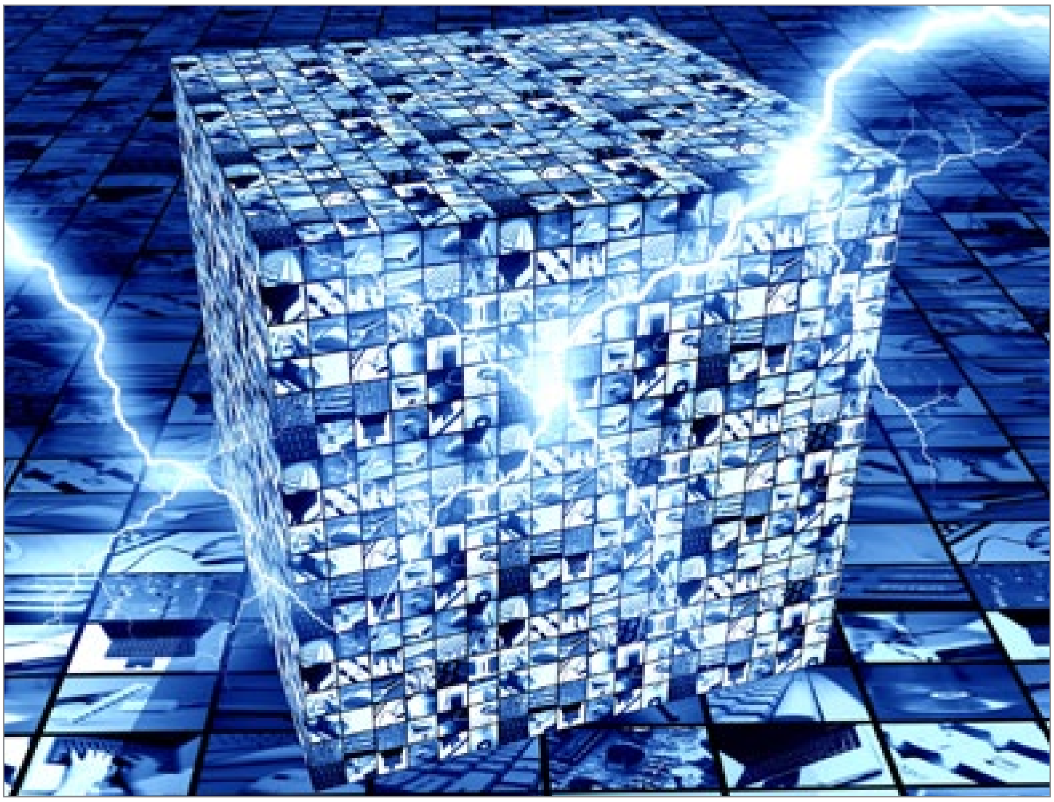

The perfect storm?

China's e-commerce players reach a crossroads as VC funding dries up Page 7

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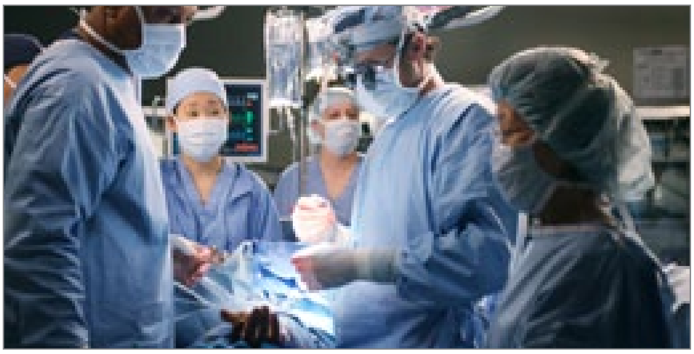

Vacation value-add

PE players target Asian medical tourism Page 11

DEAL OF THE WEEK

Locker gets emptied

Advent exits metal products specialist Page 12

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The perils of over-ambition

ASAHI'S ACQUISITION OF INDEPENDENT Liquor came towards the end of a period of frenetic outbound activity among Japanese beverage giants. Kirin bought Australia's Lion Nathan, took a minority stake in Singapore-based Fraser & Neave and then rounded it off with a majority interest in Brazil's Schincariol. Suntory was busy beating The Carlyle Group to a deal with Indonesia's GarudaFood.

Asahi, meanwhile, agreed to buy Permanis, Malaysia's second-biggest soft drinks maker, and shortly afterwards completed the NZ$1.5 billion ($1.27 billion) acquisition of Australasia-focused Independent Liquor.

All of these transactions came in at reasonably high valuations – they ranged from 12.5-15.7x EBITDA, with Independent Liquor registering 13x – and this was a reflection of the intense competitive environment as much as the companies' growth trajectories.

Buoyed by low costs of capital and a strong yen, Japan's beverage giants often ended up battling each other for assets (according to industry sources, once the bidding reaches 13-15x EBTIDA, financial investors get uncomfortable). They were also battling their own demographics. Japanese population growth is negative, GDP growth is stagnant, price deflation is a longstanding problem, and consumer spending is in decline.

With the government agitating firms to enter new markets, it was a case of differentiate or decay.

Eighteen months on from the Independent Liquor acquisition, Asahi is claiming foul play. The Japanese company says the previous owners, Pacific Equity Partners and Unitas Capital, artificially inflated Independent Liquor's earnings ahead of the transaction. Asahi logged a one-time charge of JPY8 billion ($85.5 million) in its 2012 results to cover losses on the deal and has gone to court seeking damages.

The private equity firms say the allegations are untrue and that Asahi had full access to information and management during a three-month due diligence process. They have instigated legal proceedings of their own.

Presumably the full facts of the matter will emerge in court, so it isn't worth dwelling on who might be right and wrong at this juncture.

What the case does appear to flag up, however, is the risk involved in expanding too far and too fast. This is familiar to all private equity investors, who have either seen portfolio companies struggle after making strategic errors or completed carve-outs from other firms that are seeking to unwind overambitious positions.

Shortly after the Independent Liquor deal closed, one of the PE executives involved spoke favorably of Asahi's thoughtful approach to integrating the two corporate cultures. It is generally acknowledged that Japanese companies are far more sophisticated outbound investors than the raw groups that pioneered the country's late 1980s M&A boom. They spend longer on due diligence and are cautious in their approach but they aren't infallible.

Just like other multinationals, the integration issues facing Japanese buyers exist on a nuanced level. For example, a fantastic local marketing strategy won't work if global, regional and national teams are unable to interact properly. This is, arguably, particularly important in Australia and New Zealand where attempts to curb binge drinking have seen ready-to-drink alcoholic beverages hit by tax hikes and alcohol content caps. Everyone with exposure to these markets needs to re-strategize.

Asahi's 2012 net profit reached a record high of JPY57.2 billion, largely thanks to its recent overseas acquisitions. Sales rocketed to JPY1.6 trillion with overseas sales coming in at JPY158 billion, up more than 67% year-on-year. The company has been in China for a while, but of its eight subsidiaries or joint ventures in Southeast Asia and Oceania, all bar one have been added in the last two years. (The oldest holding, Schweppes Australia, was only acquired in 2009.)

Expanding into new territories at such speed, is it surprising that some acquisitions haven't worked out as planned?

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NEWS

GLOBAL

Deutsche Bank raises global secondaries fund

Deutsche Bank has reached a final close of $614 million on its second global secondaries fund. The vehicle exceeded its target of $500 million, with commitments coming from insurance companies, public and corporate pension plans and family offices.

ASIA PACIFIC

Brookfield hires Niel Thassim as Head of Asia

Brookfield Asset Management has hired Niel Thassim as head of Asia with its Hong Kong-based private funds group. Thassim was previously managing director and head of RREEF's Asia-Pacific real estate business in Hong Kong. Prior to that, he worked in various roles within RREEF and Deutsche Bank.

AUSTRALASIA

AMP Capital invests in US wind energy project

AMP Capital has injected $100 million in Capistrano Wind Partners, a large-scale wind energy project developer in North America, alongside a consortium of infrastructure investors. AMP made the commitment on behalf of a large Australian superannuation fund client. Capistrano was formed last year by Edison Mission Energy (EME), TIAA-CREF and Cook Inlet Region.

RBA sells subsidiary to PE-backed Innovia

The Reserve Bank of Australia (RBA) is to sell its 50% stake in Securency International, a company which produces polymer-based print material for banknotes, to Innovia Films, a UK packaging manufacturer backed by Arle Capital Partners. Innovia already owns the other 50% of Securency.

Paine-backed Costa to buy Adelaide Mushrooms

The Costa Group, an Australian fresh produce company backed by global private equity firm Paine & Partners, is to acquire Adelaide Mushrooms. Under the terms of the acquisition, which is still subject to customary conditions, Costa will acquire all the company's assets, including its 360-acre production complex in South Australia and its farms in Tasmania.

Asahi, PE firms in dispute over Independent Liquor

Japanese beverage giant Asahi has taken legal action against Pacific Equity Partners (PEP) and Unitas Capital over its acquisition of New Zealand firm Independent Liquor in 2011 for NZ$1.5 billion ($1.5 billion). It alleges the PE firms artificially inflated the company's earnings ahead of the sale.

"We conducted due diligence thoroughly and in good faith and relied on the figures provided to us, we are seeking maximum recovery of our loss and we have commenced legal proceedings for this purpose," said Asahi Holdings Australia Managing Director Atsushi Katsuki.

PEP and Unitas maintains that the allegations are untrue, noting that Asahi had full access to information and management during a three-month due diligence process. The firms intend to institute legal proceedings of their own in the New Zealand courts.

Asahi acquired Independent Liquor through an auction, overcoming competition from rival Japanese beverage companies also keen to expand overseas so as to boost revenue growth. However, it gained a foothold in the Australasian market at a time of considerable uncertainty for the ready-to-drink (RTD) alcoholic beverages business that accounts for much of Independent Liquor's revenue.

GREATER CHINA

3SBio board agrees to CITIC PE-backed buyout

NASDAQ-listed Chinese biotechnology firm 3SBio has agreed to a privatization bid tabled by Jing Lou, its CEO, and CITIC Private Equity. The deal values the company at $340 million. Decade Sunshine, the consortium's acquisition vehicle, will pay $15.40 per share for all outstanding American Depository Shares. The initial bid was $15 per share. The consortium currently owns about 18.1% of 3SBio.

PAG in partial exit from Haitong Securities

PAG has made a partial exit from Haitong Securities, 10 months after participating in the Chinese brokerage's IPO as a cornerstone investor. The private equity firm sold about 89 million shares, generating HK$1.16 billion ($150 million). The offering was priced at a discount of up to 3% on Haitong Securities' previous close of HK$13.54.

Zhongpin deal amendment delays take-private

Zhongpin, the NASDAQ-listed Chinese pork producer subject to a PE-backed management buyout bid, has amended the deal to allow more time for completion and prevent directors from sourcing competing offers. The Zhongpin board accepted an offer in November from an investor group hat values the business at $502 million.

NORTH ASIA

CLSA exits Japan's Everlife for $285m

CLSA Japan has sold its 100% stake in Japanese direct marketing company Everlife to Korea's LG Household and Health Care for JPY25.8 billion ($285 million). The sale and purchase agreement was concluded on December 17 and the transaction was completed in late January.

Carlyle to make partial exit with Broadleaf IPO

The Carlyle Group is set to exit the majority of its stake in Broadleaf following the Japanese company's announcement that it would seek to raise up to JPY23.3 billion ($248.37 million) through an IPO. Carlyle-related funds are expected to offload 16.48 million shares in Broadleaf, which makes software for car maintenance facilities.

Virginia Retirement backs Fortress distress vehicle

Virginia Retirement System (VRS) has committed to $50 million to Fortress Investment Group's

Japan Opportunity Fund II, a distress-focused vehicle that closed last December at its hard cap of JPY130 billion ($1.65 billion). The allocation came out of VRS' real assets program.

CITIC Japan-backed Tri-Wall acquires DS Smith unit

Tri-Wall, a Hong Kong-headquartered heavy-duty cardboard manufacturer backed by CITIC Capital Partners, has acquired the UK Tri-Wall unit of British packaging firm D.S. Smith. The acquisition of D.S. Smith Tri-Wall UK/Europe, comprises the Tri-Wall corrugating plant located in Monmouth and the Tri-Wall sales office in the Netherlands.

Vogo, KTB-backed LG Siltron withdraws IPO

LG Siltron, a silicon wafer manufacturer owned by LG Group, Vogo Investment and KTB Private Equity, has abandoned plans to raise at least $275 million through an IPO. The company won listing approval on October 31 but decided not to proceed because domestic and overseas market conditions are unfavorable.

SOUTH ASIA

Macquarie, SBI buy Expressways majority stake

Macquarie SBI Infrastructure Fund (MSIF) has agreed to buy a 74% stake in GMR Jadcherla Expressways from Bangalore-based infrastructure major GMR Group. GMR said it will first receive around INR1.9 billion ($35 million) and a further INR110 million on completion of certain conditions. GMR Jadcherla operates the Farukhnagar-Jadcherla highway in Andhra Pradesh.

IFC to invest $24m in India's Ratnakar Bank

International Finance Corporation (IFC), the investment arm of the World Bank, plans to invest up to INR1.3 billion ($24 million) in India's Ratnakar Bank. The bank is already in the process of raising INR3.25-3.3 billion (around US$60 million) from 5-6 investors. Professional and institutional players currently own about 60% of the bank.

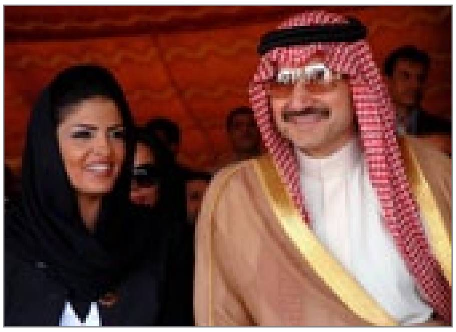
Creador backs Indian home loans provider

Creador has acquired a 9.9% stake in Repco Home Finance (RHF), an Indian housing finance provider owned by Repco Bank, for INR724 million ($13.7 million). RHF was founded in 2000 and is headquartered in Chennai, Tamil Nadu. The company provides home loans across South India and adjacent areas, with 74 branches in eight states and one union territory.

Saudi Arabia's Kingdom in $400m round for 360Buy

Chinese online retailer 360Buy has raised $400 million through a round of funding led by Kingdom Holding, an investment company controlled by Prince Alwaleed bin Talal (pictured), a Saudi Arabian billionaire. Kingdom, which was advised by Qatar's QInvest, contributed $125 million to the round.

According to AVCJ Research, this is 360Buy's sixth round of institutional funding. The investment comes barely three months after the company received $400 million from Ontario Teachers' Pension Plan and Tiger Global and nearly two years after DST Advisors and led a consortium that put in $1 billion.



Eng. Ahmed Halawani, Kingdom's executive director for private equity and international investments, said the investment was in keeping with the group's strategy of backing high-growth companies that can list internationally within three years.

360Buy is China's largest online retailer after Alibaba's TMall. Established in 2004, it has achieved compound annual growth of 150% in terms of gross merchandise volume in recent years and currently offers more than seven million products. As of year-end 2012, 360Buy had 80 million registered users and a nationwide network of six fulfillment centers, 65 warehouses and nearly 900 delivery stations.

SEBI approves first Indian social venture fund

The Incube Connect Fund has become the first social venture fund to be approved under the Securities and Exchange Board of India's (SEBI) new registration regulations. The vehicle, launched by Gujurat-based Incube Ventures, is targeting INR2 billion ($37 million) and will invest and incubate enterprises that will have social relevance.

Tata Opportunities Fund names managing partner

Tata Capital has shuffled personnel at Tata Opportunities Fund following Mukund Rajan's appointment as chief ethics officer and brand custodian of Tata Group. Padmanabh Sinha, chief investment officer at the fund, will assume Rajan's former responsibilities as managing partner. Bobby Pauly has also been elevated to partner from principal.

KPMG India appoints new PE head, Utamsingh leaves

KPMG India has appointed Vikram Hosangady, its head of transaction services, as its new private equity leader. His predecessor, Vikram Utamsingh, has left the company. Hosangady will continue to head the transaction services practice.

Zephyr Peacock, Credence back 20Cube Logistics

Zephyr Peacock India and Singapore-based Credence Partners are to invest $17 million in 20Cube Logistics for a significant minority stake. 20Cube offers international transportation and contract logistics services in India, Australia, Sri Lanka, Bangladesh, Malaysia, Singapore, China, Uganda and Dubai.

Marck Biosciences gets $8.3m from Tata

Tata Capital Healthcare Fund has invested INR450 million ($8.3 million) for a 13% stake in Ahmedabad-based drug maker Marck Biosciences. Previous plans for an IPO have now been shelved. As part of the deal, Tata Capital will acquire IFCI Venture's 6% interest, bringing its total holding to around 19%.

Bessemer backs Indian IT services provider Anunta

Bessemer Venture Partners (BVP) has invested in Anunta Technology Management Services, a cloud-based IT services company, as part of Series A investment round. Financial details of the deal were not disclosed. Anunta says it will use the investment to build its product platform, boost sales and marketing, and sell its products globally.

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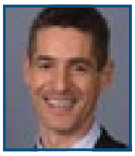

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End of the line

Burning through cash and with no public market exit in site, many of China's e-commerce players are losing the confidence of their investors. New rounds of funding come at depressed valuations – if they come at all

FOR A BRIEF PERIOD, IT SEEMED THE imitator might surpass the originator. Chinese group buying site Lashou filed for an IPO on NASDAQ in late 2011, barely 18 months after it was founded and a few days after longer-standing US equivalent Groupon went public. Lashou was on a roll, having raised $166 million through three rounds of funding since inception.

By the middle of 2012, the wheels had fallen off. While Groupon saw little competition early on, allowing it to build brand momentum, it is estimated that Lashou's early success spawned around 3,000 domestic clones, many of which received support from VC investors. In a climate of cut-price – or zero-margin – competition, casualties and consolidation were inevitable.

Lashou withdrew its IPO filing last June and is currently in restructuring mode, its long-term future uncertain. Others have already seen their fate sealed. According to the Chinese E-Commerce Research Center, there were less than 2,700 group buying sites in operation at the end of 2012, with 1,000 having shut up shop over the course of the year. A lot of the survivors are a shadow of what they once were – run on a shoestring as they search for new strategies.

Online uncertainty

Group buying is an extreme example of how fortunes have turned in China's e-commerce sector. Venture capital firms poured millions into start-ups that promised to be the next big thing. With the IPO market still weak, investment horizons have lengthened and companies require capital to keep going, but existing backers are often unable or unwilling to support them. If new funding is available it is unlikely to come at the same valuations as previous rounds.

"If you are not a category leader it's much harder," says Hans Tung, Beijing managing partner at Qiming Venture Partners. "People will give top tier companies a chance to see if they can withstand an industry downturn. As for smaller companies, investors focus on how to generate an exit or let firms stay afloat by not expanding."

This explains why 360Buy, one of China's largest online retailers, last week managed to raise $700 million in a Series F round of funding. The company only completed its previous round, of $400 million, in November, taking the total raised from PE backers past $1.5 billion. 360Buy needs capital because it is not yet profitable and expansion comes at a cost, but investors believe it has sufficient scale to remain a market leader and an IPO is mooted for this year.

For those lower down the e-commerce food chain, VC firms might only participate at a discount – a flat round or a down round. This applies to companies even if they have a track record of growth. Entrepreneurs are not the only ones reluctant to see their hard work go unrewarded. Existing VC backers are often loath to see new investors come in at a lower valuation; it doesn't look good to the LPs.

DFJ DragonFund China found itself in such a situation towards the end of last year with Hudong, a wiki platform it had supported through three rounds of funding over a three-year period. "They wanted to do a new round but we felt the time wasn't right," Tony Luh, founding managing partner at DFJ DragonFund, tells *AVCJ*. "We told management that the company was growing nicely and we would take steps to reduce the burn rate or increase the top and bottom line. Unless a company is in dire need of fresh capital it can usually wait for a while and say no to potential investors."

In the case of Hudong, this meant refining content delivery systems and restructuring the sales force. Luh didn't comment on specific job losses but anecdotal evidence suggests this is happening with gusto in other enterprises.

"The cut backs have been fairly significant," says Thomas Chou, co-chair of Morrison & Foerster's Asia-Pacific private equity practice. "There is a tendency in China to ramp up employee numbers very quickly – certainly more so than in the US – and we are now seeing companies go from 100 head count to barely 20."

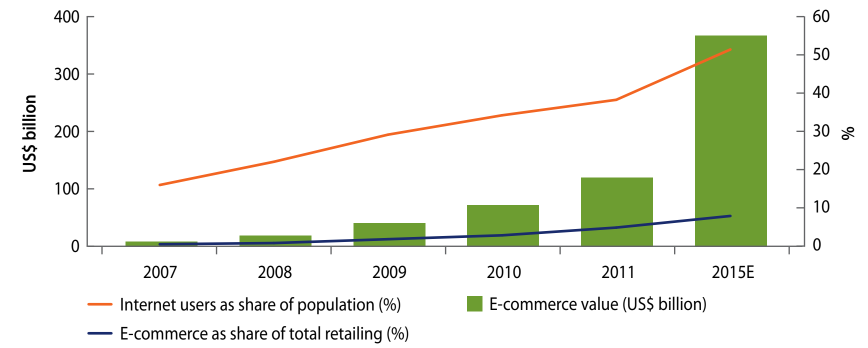
Vancl, China's largest online clothing retailer and a Qiming portfolio company, has halved its workforce to 5,000 in the last year after downsizing logistics operations. The firm has been through five rounds of funding, most recently receiving $230 million in June 2011. A US IPO was scheduled for the end of that year but later abandoned due to market volatility.

"Would they like to have more money on the balance sheet? Who wouldn't? Do they need to raise money tomorrow? No. They were cash flow positive in the final quarter of 2012," says Qiming's Tung. "If they did another round, would the valuation be as high as June 2011? We let the market decide. We have a very sensible board."

Vancl opened around 20 warehouses in 2011 with a view to serving tier-two and tier-three cities but decided the move wasn't cost effective because too much inventory was building up in these disparate locations. It has now scaled back to 6-7 core warehouses, hence the job cuts.

The situation presents an interesting parallel to 360Buy, which has devoted much of the capital raised in recent rounds to building out a national logistics network. The company operates

China's e-commerce market



Source: Boston Consulting Group

Recap options: Global norms

When additional financing cannot be raised through its existing capital structure, VC investors must recapitalize their portfolio company to facilitate the entry of new backers. How this is done impacts the liquidation preferences, valuation differentials and priorities held by the various investors, which in turn dictate exit timing and size of returns.

1) **Valuation reset:** Previously issued preferred stock is restructured into a new series, with the number of shares issued to each investor based on the amount paid originally, and a new round of funding is raised. Valuation differentials between rounds are therefore removed, but liquidation preferences and priorities are retained.
2) **Flattening:** The stock is consolidated into a single series, removing valuation differentials and priorities but retaining liquidation preferences.
3) **Preference reset:** Liquidation preferences of previously issued stock are reduced and a new round is raised, with no consolidation of earlier rounds.
4) **Preference and valuation reset:** A combination of 1 and 3, with priorities retained.
5) **Wipeout:** Previously issued preferred stock converts into common stock, removing liquidation preferences and priorities; retaining valuation differentials is optional.
6) **Pay-to-play:** The recapitalization is structured so that existing investors are incentivized to participate in the new financing. Under pay-to-play, if an investor sits, they lose liquidation preferences, priorities and valuation differentials. Non-participation penalties include conversion of preferred stock to common stock (no rights) or shadow preferred stock (board seats, blocking vote right, pre-emptive rights or anti-dilution protection might be removed).

65 warehouses and 900 delivery stations, promising delivery within 24 hours to customers in 156 cities. Alibaba has committed considerable sums to providing a similar service.

The absence of a reliable logistics network is seen as a key differentiator between China and the US. Amazon.com took nine years to achieve profitability with CEO Jeff Bezos repeating the mantra that as long as revenue kept rising costs would eventually max out because the underlying infrastructure was there. Even with rapidly increasing sales, what will it take for Chinese equivalents like 360Buy to reach this milestone if they must build their own infrastructure, not to mention deal with cutthroat domestic competition?

Too big to fail?

The question isn't so much whether a tweaked version of the US e-commerce model can work in China – the sheer market potential, with Boston Consulting Group expecting market value to reach $364 billion by 2015, a threefold increase on 2011, suggests that it can – but how quickly and at what cost? This has a direct impact on which firms VC investors decide to back and the amount of capital they are willing to commit.

"A lot of people expected a similar development path to the US where as soon as you have a certain scale you are profitable and valuable," says Ludvig Nilsson, managing director at China-focused fund-of-funds Jade Invest. "But in China you have to be a lot larger – 10 million users isn't enough."

According to Morrison & Foerster's Chou, clients have begun asking about wipeouts and pay-to-play provisions, vocabulary familiar to Silicon Valley VC players but new to China. At present, there is still more talk than action, but one option that is actively being explored is bridge financing.

Qiming has around 80 portfolio companies and Tung estimates that the number down rounds is in the "low single digits," while a few more portfolio companies have accepted bridge loans. Capital is extended to a company on the understanding that it will eventually convert to equity at a lower valuation to the previous round of funding or at a discount to the next round. This approach means the GP avoids having to do a down round – either internally or by bringing in new investors – yet puts in the capital required on terms that could turn out to be lucrative if the company continues to grow.

Obtaining debt externally, while generally challenging, is not impossible. It also tends to be structured as bridge loans in return for hugely diluted equity or warrants. Industry participants claim to have seen plenty of these deals in the market over the last year – typically offered by managers of renminbi-denominated funds or more informal capital providers – but they don't always close, presumably because the terms are so stringent.

Rocky Lee, Asia managing partner at Cadwalader, describes it as "vulture capital" because the lenders might have ulterior motives. "The suspicion is that there is already a deal in place with a third party for a set price," he says. "They will do a $2-3 million bridge loan, use the assets as collateral and lock up the management team for 1-2 years, with a view to picking up the assets on the cheap. The owners are basically taking a bet on their survival."

In some instances, prospective buyers don't bother with a stalking horse. Certain Chinese internet companies have been known to approach smaller players under the pretence that they are in acquisitive mode. They conduct due diligence on the target, extract proprietary information and submit a lowball offer that is likely to be rejected. The companies then return with headhunters and hire away the talent or use the information to set up competing operations.

"The bigger guys have a lot of tricks up their sleeve," says DFJ DragonFund's Luh. "They do a lot of things that would be deemed illegal if they were operating in the US.."

Even in transparent negotiations, it remains a buyer's market and this creates an obstacle to getting transactions done. Those who have worked on failed deals note that, even though sellers' expectations have moderated, strategic buyers still come in with valuations that are too low or seek to impose performance targets that are too high, while CEOs who run their companies more like family businesses than corporations resist selling for personal reasons.

Cadwalader's Lee adds that prospective buyers from the Japan and the US have become reluctant to engage in M&A. For the Japanese, the ongoing territorial dispute over islands in the South China Sea is a deterrent. For the Americans, there were concerns that acquisitions made close to last November's presidential election would become political footballs. Cadwalader worked on several deals where the buyers were nervous about being accused of exporting jobs to China.

Nevertheless, there have been some acquisitions and industry participants expect to see more as portfolio companies struggle to raise more capital and existing investors become increasingly desperate for an exit, perhaps because their funds have little time left to run.

Last year, DFJ DragonFund was mulling its options regarding Fastweb, a cloud-based content delivery network that required additional capital. While a fresh round of funding was considered, the company was ultimately sold in September to NASDAQ-listed 21Vianet Group, a Chinese internet data services provider that had previously expressed an interest in buying the business. Luh describes the valuation as "not what we would have liked, but acceptable."

Around the same time, Suning Appliance, China's largest electronics retailer, acquired online baby products platform Redbaby for $66 million, less than the total capital pumped into the business by VC investors across five rounds of funding over seven years. Redbaby had seen its market share collapse under pressure from larger rivals and was reportedly close to folding.

Other e-commerce companies have been bought up while on the brink of bankruptcy, but Qiming's Tung is pessimistic about domestic M&A prospects for the next 12 months because likely buyers aren't particularly acquisitive, at least not yet. He sees Suning as an outlier whose online strategy isn't being replicated by other bricks-and-mortar retailers, while larger e-commerce players such as 360Buy and Vancl must go public to get balance sheet cash for M&A. Elsewhere, the focus is on mobile, online video and gaming.

"With online video, M&A means you can consolidate bandwidth and content acquisition costs. With gaming, you are pumping content into established distribution channels," says Tung. "E-commerce is all about back-end integration, which is much harder and messier. It doesn't make sense to buy your competitors so companies will just be cut loose."

> **"Entrepreneurs are shell-shocked right now. The young generation of start-up enthusiasts is also shell-shocked. This is as serious as the bubble bursting in Silicon Valley in 2001"** – Rocky Lee

Callow youths

The key point is that an atrophying e-commerce industry doesn't necessarily reflect the wider internet sector where opportunities remain. Even within e-commerce, those with a differentiated business model can prevail. The casualties tend to be copycats that have neither sufficient scale to create barriers to entry nor consumer loyalty. Customer acquisition comes at a cost and investors are no longer willing to pick up the tab.

Another characteristic of the Chinese market that comes into the equation is its youth. For most entrepreneurs, life was a series of ever escalating valuations that outstripped rising operational costs. They haven't seen a downturn before and so board meetings become uncomfortable and contentious as interested parties try to make the best of a bad lot.

"In some circumstances there is a traumatizing discussion over valuations," says Cadwalader's Lee. "Entrepreneurs are shell-shocked. The young generation of start-up enthusiasts is also shell-shocked. It used to be that if they didn't get a pay rise they would just get a new job; now they aren't getting their Chinese New Year bonuses and those who lose their jobs cannot find new ones. This is as serious as the bubble bursting in Silicon Valley in 2001."

Confronted with down rounds, flat rounds, bridge loans or mergers, the real danger is doing nothing at all in the face of deteriorating growth. It is possible for firms to go into hibernation, shedding staff and cutting costs in the hope that the market will turn a corner when all the time a sustainable future is slipping from their grasp.

"You have an everlasting sense of deniability from the founders that their companies cannot fail. You don't have sellers lining up with real expectations that they need to merge to get to the next level," says Bob Partridge, China transactions and services partner at Ernst & Young. "That is changing and it will continue to change as they become more cash strapped."

Healthy holidays

Asia's medical tourism sector is growing rapidly as visitors flock east for cheap surgical procedures. How big is the opportunity for private equity and where can it be found?

BOOK A STAY AT ONE OF THE APAX Partners-backed Apollo Hospitals as a tourist and you not only elect to receive surgery at a fraction of Western prices, but you also have your plane tickets, insurance and airport pick-up scheduled at the same time. Apollo is not the only Indian hospital chain offering a premier service for foreign guests. Fortis Healthcare, which is backed by Government of Singapore Investment Corp. (GIC), even offers currency exchange, serviced apartments and local sightseeing tours.

"Over the last five years medical tourism has been an important aspect of this business," says

Nikhil Marathe, a partner with Apax in Mumbai, adding that Indian healthcare companies increasingly see the commercial sense in reaching out to international clients. "While it is not the most important thing we do, Apollo does try to target patients from outside India, primarily because the pricing is better while the quality of healthcare is in line with global standards."

In recent months, the country has seen a flurry of private equity investment in private hospitals and clinics that are trying to position themselves as healthcare providers for travelers in search of a bargain. The question is how significant is this opportunity and how is it likely to develop?

It is difficult to pinpoint the number of PE investments in the medical tourism space because portfolio companies are normally defined under the wider umbrella of healthcare. What is known is that India's medical tourism industry is growing at 30% per year and is projected to be worth $2 billion by 2015. On a global basis, the industry is expected to reach as much as $100 billion by the end of this year.

Target market

Since paying $100 million for an 11% stake in Apollo in 2007, Apax has overseen an increase in the company's exposure to medical tourism through the expansion of its international patient centers in Chennai and Hyderabad. Last week, the firm sold half its stake in Apollo to Oppenheimer Funds for about INR5.23 billion ($96.8 million).

It is not the only private equity firm employing such a strategy. In January, Olympus Capital took a minority stake in DM healthcare for $100 million. The company, already a major healthcare player in the Middle East, is pursuing rapid expansion in India, and this includes promoting the city of Kochi as a medical tourism destination.

"The segment is currently worth around $650 million in India based on the data we have. It is growing nicely and it makes a lot of sense for certain hospitals, depending on their geography and specialization," Gaurav Malik, Olympus managing director and head of India, tells AVCJ.

However, he stresses that no healthcare company can build a business based on medical tourism alone, describing it as "the cherry on top of any good hospital business in a good location."

The key factor is that India has nothing that compares to Bumrungrad Hospital in Bangkok, where revenues are entirely driven by medical tourism.

Thailand is well established as a medical tourism hotspot. Out of the 19 million visitors to the country in 2011, an estimated 500,000 traveled specifically for medical care. The industry is growing at an annual rate of 16% and is on course to be worth THB100 billion ($3.3 billion) by 2015.

As early as 2005, Singapore sovereign wealth fund Temasek Holdings bought a minority stake in Bumrungrad. The fund exited in 2011, without disclosing the return on its investment. However, a more recent by exit The Abraaj Group from Vejthani Hospital delivered a 3x money multiple, suggesting that Thai medical tourism is indeed a PE money spinner. The investment had been made in 2009 by Aureos Southeast Asia Fund, a vehicle run by Aureos Capital until its acquisition by Abraaj last year. The fund injected THB200 million into the hospital alongside GSB Private Funds, a vehicle set up by Thailand's Government Savings Bank and managed by ING.

"Vejthani was resilient during the downturn in 2009 and was well positioned to capture an increasing share of the growing medical tourism trade where Thailand has been a large beneficiary," Srisant Chitvaranund, a partner with Abraaj, told AVCJ in December.

Price incentives

Given that price of treatment abroad is the main incentive for medical tourists, India still has a clear advantage over other countries. A heart bypass, for example, costs $80,000-$130,000 in the US, compared to $16,000 in Singapore, $11,000 in Thailand and as little as $9,000 in India.

By this token, the reason India's medical tourism space has not yet become a defining feature of healthcare as a whole is not a reflection of insufficient demand. Rather, it is due to the wealth of opportunities being created locally by the burgeoning middle class. "It will become more of a factor but the reality is that domestic demand in India is just so strong that even if the number of medical tourists goes up it will still be a small percentage of the total number of patients," says Ben Mathias, executive director at New Enterprise Associates, which last year invested in INR 3 billion with Goldman Sachs in India Nova Medical Centers.

> "The medical tourism sector makes a lots of sense for certain hospitals depending on their geography and specialization" – Guarav Malikl

Asanka Rodrigo, a director with Actis in Mumbai, reflects that the appeal of medical tourism for many companies is the cache it brings to its brand. "The message is that these hospitals are able provide care at a world-class level and can therefore serve the global medical tourism market," he says. Actis' Sri Lankan portfolio company Asiri Central Hospitals is among those to have benefited from this perception.

The medical tourism story is significant but it is unclear to what extent it can shape the growth of Asia's healthcare sector as whole. Rodrigo echoes Malik's cherry-on-the-top observation, saying that such services are most likely to augment profits rather than drive them. "The domestic growth story is there or the next 20 years; the question is if you want to grow faster than the domestic market."

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AGCA, secondary investors buy CS legacy assets

THREE YEARS AFTER CREDIT SUISSE'S Asia private equity team spun out, the assets they were tasked with managing have followed suit. Supported by HarbourVest Partners and Axiom Asia, Asia Growth Capital Advisors (AGCA) has acquired a portfolio of eight assets from its former parent.

Although not a conventional spin-out – or only second half of one, at least – the transaction will fuel secondary investors' interest in helping management teams start afresh with new LPs in the event that existing backers are unable or unwilling to continue.

"The assets under management are seasoned and stable, and that gives us a lot of comfort," Soma Ghosal Dhar, CEO of AGCA. "We have access to fund-of-funds that have a longer term view of Asia and have raised a lot of capital. If a portfolio company needs additional capital, we can now do follow-on investments. You can't do that if your fund is in wind-down mode."

Ghosal Dhar set up AGCA with Harjit Bhatia, the pair having previously worked together at Credit Suisse. Bhatia was appointed head of PineBridge Investments' Asia PE operations last year but retains a financial interest in AGCA and fulfils a mentor-type role at the firm.

There has been no change in the actual management of the portfolio. At the time of the original spin-out, AGCA was tasked with managing the assets on behalf of the LPs – Credit Suisse and its affiliates, plus a few third-party investors such as trusts and high net worth individuals. Now all apart from one of the original LPs have exited, replaced by HarbourVest and Axiom; a new GP has been created and AGCA is contracted as its advisor.

Harjit-Bhatia

The assets are growth capital investments spread across the region – India, Southeast Asia and China – in sectors including infrastructure, consumer, alternative energy and financial services. Most were made between 2008 and 2009.

For such transactions to come to fruition the seller has to be willing. This is a key consideration in Asia where, unlike the US, secondary portfolios that come on the market tend to be young and non-distressed, which means no fire sale prices. An additional challenge presented by the Credit Suisse portfolio was its geographical diversity, which complicated legal negotiations.

There has been one other comparable transaction in the region: the spin-out of Bank of America Merrill Lynch's Asian PE team to form NewQuest Capital Partners, with Paul Capital and LGT Capital Partners joining HarbourVest and Axiom as LPs. NewQuest is managing the legacy portfolio but also scouting for secondary direct opportunities. Tim Flower, a principal at HarbourVest, sees AGCA fulfilling a similar role, noting the potential for acquisitions of existing PE portfolios in India and South East Asia.

"There are some opportunities where some other existing LPs or GPs need to sell and we could provide a solution," adds Ghosal Dhar, "but this doesn't mean we can't do other things as well."

Advent generates 2.5x on rationalization play

LOCKER GROUP HOLDINGS, AN Australian metal products manufacturer recently exited by Advent Private Capital to US-based Valmont, is an example of post-global financial crisis rationalization.

Advent bought the business in 2006 for an enterprise valuation of $109 million but subsequent attempts at a recap were unsuccessful. The GP responded by selling off the Screenex division – which produces screening media used in the iron ore and coal industries – to Germany's Schenk in 2008. The transaction wiped out the debt that supported the Locker buyout and then the company re-entered the screening business once the non-compete expired.

Locker Group: Metallic magic

Advent's next step was to streamline the remaining operations. "We expanded into China, put in place a joint venture in India, closed a factory in Sydney and consolidated in Melbourne," Rupert Harrington, managing director at Advent, tells *AVCJ*. "There was new capital expenditure, new processes and systems. We sorted out what should be manufactured locally and what should be done offshore."

Locker, which produces perforated and expanded metal products used in industrial flooring and handrails, now has more than 300 employees across five manufacturing locations in Australia, New Zealand, India and China. Annual sales are approximately A$80 million.

A decade ago, the company ended its long tenure as an Australian subsidiary of a UK-listed Locker Group after the parent completed a takeover of one of its largest British rivals (although the deal was later unwound by competition regulators). The Australian management team bought the business, supported by a consortium of private investors. A single high net worth individual held a majority interest which was eventually sold to Advent in 2006 as the PE firm took an 80% stake.

Locker CEO Ed Sill has been a consistent presence and he will remain in place now the business is wholly-owned by Valmont.

Harrington notes that the US industrial infrastructure specialist was always top of the list when exit options came under serious consideration last year. "They had expressed interest previously and from our perspective we saw the most synergy between these two businesses," he says. "Locker has assets in China, India and Australia and Valmont wants to build a $1 billion presence in Asia."

Advent generated a 2.5x money multiple on its investment, the third exit in six months that has reaped a return of this magnitude or more. The GP has now returned most of the invested capital from its A$300 million fifth fund, with four investments still to be exited.

"Getting a 2.5x return for a manufacturing business in not the best of economic climates is pretty good," Harrington adds. "Locker is heavily exposed to the non-residential construction, which is pretty desperate right now, but management still increased sales and profit."

Headland to take Malaysian Mamee overseas

AS "OFFICIAL NOODLE SPONSOR" OF English football team Manchester United, Malaysian snack and beverage firm Mamee Double Decker puts a lot of stock in the reputation of its brands. The challenge for Headland Capital Partners, which recently took a significant minority stake in the company, is to leverage that reputation and help Mamee expand overseas.

"When we saw Mamee secure a deal with Manchester United it told us this is a company that clearly has ambitions of going somewhere," says Paul Kang, a senior partner at Headland. "The deal allows Mamee to leverage Manchester United-related marketing, which has already been very successful in Malaysia, in Indonesia and Thailand."

Mamee: Noodle kingpin

Established by the Pang family in 1971, Mamee has a more than 30% share of the domestic snack and beverage market. Its flagship products – including Mamee Monster, a brand of ramen noodles intended to be eaten raw – are well known to consumers, and Kang is no exception. Born and raised in Malaysia, he too has fond memories of Mamee from his youth.

"That is what we really liked about the deal, my colleagues and I are very familiar with brand and we saw many expansion opportunities for company," says Kang.

He didn't disclose the financial details but said the investment in Mamee, estimated to be worth between $50 million and $100 million, represents a "sweet-spot" deal for Headland. It was channeled through the PE firm's sixth fund, which closed at $1.4 billion in late 2008 and is now two-thirds deployed.

The investment comes less than two years after the Pang family took Mamee private, feeling that the company was undervalued. Headland's priority in helping maximize value is to replicate Mamee's domestic success overseas. There are plans to moving manufacturing to Indonesia and seek marketing synergies with neighboring countries. Expansion through M&A is also possible in Southeast Asia and the PE firm is keen to deploy more capital to support these efforts.

Even without moving into new markets, Mamee is expected to grow at 10-15% per annum through a combination of product extensions and improved distribution and marketing strategies in Malaysia.

Southeast Asia consumer plays are popular among private equity investors, particularly as valuations still compare favorably with the like of China and India. However, Kang warns that increasing competition means GPs cannot always expect a cheap price.

"The segment this company services in Southeast Asia is worth around $7.5 billion and growing at 10-12 % a year, but you are not going to buy in at 5-6x EBITDA. For a business of Mamee's size and scale in Indonesia the multiple will be significantly higher. If you buy into the growth story you have to make sure to pick the right people to execute on the strategy."

Investors flock to CRC's debut RMB fund

RENMINBI FUNDRAISING WEAKENED considerably over the course of 2012. Preliminary *AVCJ* figures showing that barely 20 vehicles attracted a total of $4.2 billion in the second half of the year, less than one third the amount raised in the previous six months.

The malaise doesn't appear to have reached China Resources Capital (CRC) – its debut local currency fund was more than two times oversubscribed within a fortnight of launch, closing at RMB956 million ($153 million). CRC's previous funds have all been US dollar-denominated vehicles raised through its subsidiary, Harvest Capital, which will serve as GP and fund manager with China Resources SZITIC Trust.

"China is the world's second-largest economy but it is in short supply in terms of efficient financing, with companies over-reliant on banks," Derek Cheng, managing director of CRC, tells *AVCJ*. "But things have begun to change. Chinese businesses are seeking direct equity financing like PE and there are a lot of emerging institutions and high net worth individuals willing to invest."

There are two reasons why CRC was able to buck the renminbi fundraising trend. First, it is a real estate-focused vehicle with only one asset, as opposed to a bundle of pre-IPO investments. Second, the asset is a prime residential project in Shanghai's Hongqiao district and the investment partner is China Vanke, the country's largest residential developer.

The Shanghai government wants to turn Hongqiao into Asia's largest transportation hub with a combination of airport, high-speed rail and urban mass transit connections capable of handling more than 52 million passengers per year by 2020. The portion of land in which CRC has an interest is a 178,000 square-meter central business district at the heart of the Hongqiao development. CRC and Vanke identified the site together; then the developer acquired the land while the private equity firm raised capital for the co-investment.

Hongqiao: Development hotspot

It is not unusual for renminbi-denominated real estate funds to be raised for specific projects rather than for blind pools. However, the CRC vehicle differs from the norm in that it's a pure equity joint venture. In most cases, capital is raised on the basis of a buy-back guarantee from the developer – implicit if not legally mandated – so investors enter knowing they will get a return.

"There aren't many pure equity funds in the market for single projects where investors are taking genuine equity risk. It really depends on the quality of the project and the sponsor's background," says Christine Chan, director of investment and acquisitions at Harvest Capital.

Funds of both types are expected to proliferate as the Chinese government continues to impose restrictions on bank lending to property developers. "Due to these curbs, more and more developers are now pursuing alternative financing. We have seen this trend in the past few years and it is growing. It represents an opportunity for us."

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From academia to infrastructure

When Dr. Archana Hingorani swapped academia for industry, she ended up at the nascent IL&FS. Twenty years on, she is CEO of the company's PE unit and recognized as a pioneer in Indian infrastructure

IN 1993, CHANGE WAS IN THE AIR IN INDIA. The country had emerged from a financial crisis and the government was shepherding the economy through one of its most dramatic periods of liberalization. Talented Indian expatriates began flocking back home to participate in the growth story.

"My move back had nothing to do with this," admits Dr. Archana Hingorani, who was 27 at the time and had just spent eight years in the US. But her timing couldn't have been better.

After years of socialist policies, India was ready to modernize. "There was a lot of activity and lots of announcements regarding reform, but at the time it didn't seem like it," says Hingorani. "When you are in the midst of change it is not easily visible but that is when everything had gained momentum."

Originally from Mumbai, Hingorani grew up in an academic household, with a father who was a professor of accounting and a mother who worked as a high school teacher. She read economics as an undergraduate and then had a brief stint at Housing Development Finance Corp's oil and gas subsidiary before continuing her studies at the University of Pittsburgh, gaining a PhD in corporate finance.

Imperfect fit

Hingorani planned on forging a career in academia but on returning to India she found the skill set she had acquired in the US was not a good fit for her home country. "It was more about teaching and less to do with the simulating and intellectually engaging research aspect of it," she recalls. "So it was clear then that I would go back to carve out a corporate career."

She duly joined Infrastructure Leasing & Financial Services Limited (IL&FS) as an economist. Unlike today, the IL&FS of 1993 was just a single entity. Set up five years earlier, its remit had been to focus on infrastructure projects at a time when it the government was expected to facilitate private investment in the sector. Hingorani's worked with the firm's economic intelligence unit, which meant spending a lot of time on government infrastructure white papers.

"While our focus was to work on financing infrastructure projects there was no privatization happening at that point so the mandate for the entire organization was to be able to move alongside the government, work with them and learn with them," she says.

Around 1995, the trail of policy recommendations finally began to deliver as privatization took hold. Hingorani was tasked with helping to write IL&FS's first private

> "When you are in the midst of change it is not easily visible but that is when everything had gained momentum"

placement memorandum. This sowed the seed for what became the company's PE division.

Soon after, Hingorani joined the deal team and become one of the founding members AIG Indian Sectoral Equity Fund (AISEF). The $91 million fund reached a final close in 1996. Sponsored by American International Group (AIG) and IL&FS, the vehicle attracted marquee investors from the US, Germany, Japan, and France, as well as a multilateral institution, two Indian state governments and several high-profile domestic corporates.

IL&FS claims that AISEF was the first fund set up in India to provide long-term equity support for infrastructure projects and also the first to allow international participation through a limited partnership structure. Hingorani adds that it was the first fund to focus on both infrastructure and non-infrastructure projects. "It had a lot of firsts, and therefore a lot of expectation was attached to it and once we had raised that capital, the energy required to implement it was quite significant," she says.

Turning point

In 2000, Hingorani and her team completed one of AISEF's more significant deals – the acquisition of a minority stake in Indraprastha Gas, a government-initiated project intended to get public transportation in New Delhi to switch to natural gas. The project was to be funded though a 50-50 public-private partnership by diktat of the India's Supreme Court.

"This was not transformed the city in terms of curbing pollution and taking care of the environment," says Hingorani. "It opened up a brand new market through a regulatory change that actually broadened the horizon of what could actually happen in the city."

Indraprastha was to be India's first city-wide gas distribution project, covering industrial, residential and commercial zones as well as transportation. The challenge for IL&FS was not just convincing the government co-investors they were the right partner but also negotiating a myriad of legal and operational hurdles once the deal closed. "We realized it was a big task in a legal sense because if you slipped up any of the timelines there were consequences, there were also a lot of operating aspects, the first 100 days would be critical," Hingorani says.

After six months, the investment was already performing beyond everyone's expectations and IL&FS exited five years after that via an IPO. The exit was another private equity first for Hingorani and generated a 7x money multiple and an IRR of 64.9%. Indraprastha is now one the largest gas distribution companies in India.

"I think overall that experience stands out in my mind as something that had a lot of perceived issues in terms of how it could be done," Hingorani adds. "But in the end the deal became a template for other companies to sprout across the nation using the same private-public model. It is still relevant today."

SELECTED INVESTMENTS FROM NOV 2012 – JAN 2013

SK Energy Co., Ltd.	
Country	South Korea
Sector	Mining and metals
Founded	2011
Management	Bong-Kyun Park, CEO

Shinhan Private Equity Investment Management — $735 mln

Deal Brief
Shinhan Private Equity Investment Management and Stonebridge Capital, through the newly formed Shinhan-Stonebridge Petro Private Equity Fund, have invested Won800 billion in SK Energy, a South Korea-based energy producer. The proceeds will be used to spin-off and support SK Incheon Refinery, which is planning the IPO in the future.

Komeda's Coffee	
Country	Japan
Sector	Travel/Hospitality
Founded	1993
Management	Tarou Katou

MBK Partners K.K. — $483 mln

Deal Brief
MBK Partners has agreed to acquire the entire shares in Komeda, a Japan-based coffee shop chain operator, from Advantage Partners, Pokka Sapporo Food & Beverage and the management. The total consideration was about Yen43 billion including debt. The Japanese coffee chain operator plans to expand into China, South Korea and Taiwan.

SPI Global Ltd.	
Country	Philippines
Sector	Information technology
Founded	1980
Management	Maulik Parekh, CEO

CVC Asia Pacific (Singapore) Pte. Ltd. — $300 mln

Deal Brief
Philippine Long Distance Telephone(PLDT) has agreed to sell an 80% stake of its wholly-owned business-process outsourcing(BPO) unit, SPi Global Holdings to an CVC Capital Partners. The transaction values of SPi is more than $300 million. SPi Global is a Philippine based company, engages in providing voice and non-voice business process outsourcing, and customer relationship management(CRM) services worldwide. Subsequent to the acquisition, PLDT will retain the remaining 20% ownership in SPi.

Nera Telecommunications Ltd	
Country	Singapore
Sector	Telecommunications
Founded	1978
Management	Samuel Ang Seong Kang, President & CEO

PT. Northstar Pacific Partners (Northstar Group) — $144 mln

Deal Brief
Northstar Pacific Partners has agreed to acquire a controlling 50.05% stake in Nera Telecommunications from Eltek and is offering to buy the entire shares of Nera for a consideration of S$177.3 million. The consideration represents an offer price of S$0.49 per Nera's share. Nera Telecommunications is a Singapore-based company, which offers solutions and services from satellite communications and wireless infrastructure networks to internet protocol, broadcast network infrastructure and payment solutions.

SELECTED PE-BACKED IPOS FROM NOV 2012 – JAN 2013

Bharti Infratel Ltd.	
Country	India
Sector	Telecommunications
IPO Date	12/28/2012
Stock Exchange	National Stock Exchange of India
Management	P. Swaminathan, Executive Director

Temasek Holdings Advisors India Pvt. Ltd. — $756 mln

Other VC Sharholders(s): AIF Capital (India) Pvt. Ltd.; AXA Private Equity Asia Pte. Ltd.; Citi Venture Capital International - India; Goldman Sachs (India) Securities Private Limited; India Equity Partners Advisors Pvt. Ltd.; KKR India Advisors Pvt Ltd.; Macquarie Infrastructure and Real Assets; Millennium Private Equity; Nomura Asset Management Co., Ltd.

Issuer Profile
Bharti Infratel is a provider of tower and related infrastructure and on a consolidated basis, it is one of the largest tower infrastructure providers in India, based on the number of towers that Bharti Infratel owns and operates and the number of towers owned or operated by Indus, that are represented by Bharti Infratel's 42% equity interest in Indus. Not only did it pioneer the tower infrastructure sharing concept in India, but is also today the leaders with over 34,000+ Towers across the circles it operates in, with some of them in the remotest and tough terrains.

Chimney Co., Ltd.	
Country	Japan
Sector	Travel/Hospitality
IPO Date	12/14/2012
Stock Exchange	Tokyo Stock Exchange 2
Management	Manabu Izumi, President

Carlyle - Japan — $124 mln

Issuer Profile
Chimney is a leading restaurant chain operator in Japan, specializing in Japanese style pub-restaurants (Izakaya). It manages both directly operated stores and franchise stores. The "Hananomai" and "Sakanaya Dojo" chains are Chimney's principal brands. The Chimney group is based in the Kanto region centered on metropolitan Tokyo and had 690 stores nationwide as of the end of November 2012.

YY Inc.	
Country	China (PRC)
Sector	Information technology
IPO Date	11/21/2012
Stock Exchange	NASDAQ USA
Management	Yunfan Zhang, General Manager

Morningside Technologies, Inc. — $82 mln

Other VC Sharholders(s): GGV Capital; Steamboat Ventures Investment Advisory (Shanghai) Co., Ltd.; Tiger Global Investment Consulting (Beijing) Co., Ltd.

Issuer Profile
YY is a revolutionary rich communication social platform that engages users in real-time online group activities through voice, text and video. YY Client, our core product launched in China in July 2008, has attracted 400.5 million registered user accounts as of September 30, 2012. It achieved approximately 10.0 million peak concurrent users and approximately 70.5 million monthly active users on YY in August 2012. The platform consists of YY Client, the YY.com and Duowan.com web portals and Mobile YY.

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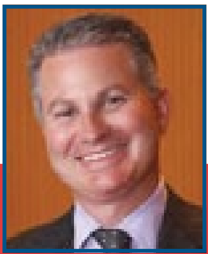

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