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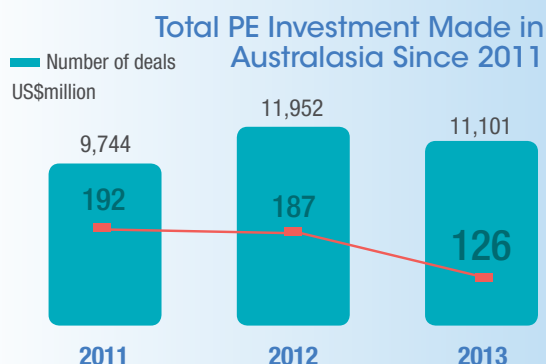


The public market sale increase
in total exit in 2013

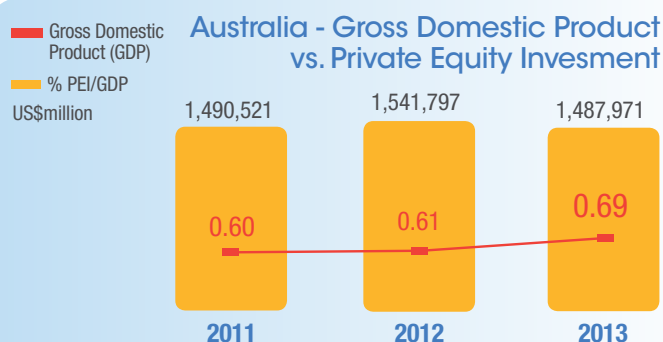
53%

of investments
made in 2013
were allocated to
infrastructure

29%



TOP 10 PE INVESTMENT IN 2013
FROM US\$189m
UP TO US\$5,272m



* GDP data refers to fiscal year (April 1-March 31) and Private Equity Investment data refers to year-ended on December 31
The International Monetary Fund

PE Contribution to Australia GDP
represents **+0.69% in 2013**

PE-backed firms employ
262,000 workers
in Australia, making it a larger
employer than the automotive
or banking industries

Source: AVCJ Research, IMF and AVCAL

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Execution issues

ANOTHER WEEK, ANOTHER DIVESTMENT

by a Japanese conglomerate. This time it was Sony, which agreed to sell its personal computer business to Japan Industrial Partners (JIP) in a deal thought to be worth JPY40-50 billion (\$394-493 million).

It will be accompanied by a spin-out of the company's television arm and 5,000 job cuts as Sony finally heeds calls to streamline operations. The restructuring effort, driven by a desire to double down on smart phones, gaming and imaging, is expected to cost JPY90 billion over two years.

This is JIP's second carve-out in a matter of weeks, following the acquisition of Biglobe, Japan's fourth-largest internet service provider, from NEC.

In the last fortnight we have also seen Panasonic sell off its chip assembly plants in Southeast Asia to Singapore-based UTAC Holdings, which is owned by Affinity Equity Partners and TPG Capital. It is the latest in a string of sales by the conglomerate, with KKR picking up a majority stake in Panasonic Healthcare and Advantage Partners acquiring the Sanyo Electric digital camera business.

The deal flow feels palpable because these are generally big ticket transactions and in previous years the Japan divestment juggernaut, while much discussed, was always one step short of finding its stride. Restructuring was a compelling story, but it remained just that, as the investors who repeatedly lobbied for action at Sony can attest.

Nevertheless, some private equity investors still feel shortchanged. Speaking at an industry event last month, Richard Folsom, representative partner at Advantage Partners, said the transactions that have been agreed represent barely a scratching of the surface, given the hundreds if not thousands of electronics conglomerates operating in Japan.

Abenomics – the series of economic reforms introduced by Prime Minister Shinzo Abe – is in this sense a double-edged sword. We have yet to discover whether the third of the three policies in Abe's portfolio – structural measures – will bring about a wider, government-driven corporate restructuring. In the meantime, as Folsom noted, the monetary and fiscal stimuli that comprise policies one and two have contrived to weaken the yen and thereby ease the pressure on Japan's

export-oriented electronics giants. Divestments are being delayed.

The other consideration is that these transactions are, quite simply, hard to transact. Buying an asset requires the patience of Job, the political intuition of Machiavelli and networks that extend deep into the internal and external apparatus that decides whether a deal will actually go through. A retired executive board member might be just as influential as the CEO.

A potential restructuring led by a foreign private equity firm is almost certain to set off alarm bells: for many, the asset class is still synonymous with job cuts. Historical studies show that Japanese-led restructurings lead to at worst modest declines in employee numbers.

In this context, a takeover bid that doesn't enjoy widespread stakeholder support starts with a massive disadvantage. The financial sector bailouts of the early 2000s were considered a necessity because balance sheets were in a mess. Contrast that with the situation at Seibu. The railway and resort business may have been distressed when the US private equity firm bought a minority stake in 2005, but board and management were in no mood to be pushed around as Cerberus Capital Management sought to impose its will last year.

It is not the only example of a foreign PE deal turned sour.

We are left with a collection of maybes. Maybe the structural measures in Abenomics will deliver. Maybe Japanese management teams are coming around to the benefits that private equity investment can bring. Maybe the recent divestments signal a change of attitude in corporate circles, leading to a swath of non-core assets being put up for sale.

In the meantime, know your target. Prepare an investment proposal that illustrates what you can bring in addition to capital yet doesn't risk alienating executives whose support will be vital in implementing it. Find a partner, where appropriate, either a local player with on the ground knowledge or a foreign player with proven expertise. And, above all, be patient.

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AUSTRALASIA

Sunsuper acquires Discovery Parks, PE exits

Sunsuper, the Australian superannuation fund, has acquired control of Discovery Holiday Parks, paving an exit for Next Capital, Allegro Funds and Macquarie Funds. The deal, which values the asset at A\$240 million (\$215 million), will see Sunsuper raise its stake from around 30% to 98%.

Halifax-backed Envision Pharma acquires ProScribe

Envision Pharma Group, a scientific communication company backed by US-based private equity firm The Halifax Group, has acquired Australian medical writing firm ProScribe in a move to expand its Asian footprint.

GREATER CHINA

Temasek, Ceyuan, IDG, SAIF invest \$100m in Vancle

Vancle, China's largest online clothing retailer, has raised more than \$100 million in funding from existing investors Temasek Holdings, IDG Capital Partners, Ceyuan Ventures and SAIF Partners. The transaction was completed at the end of January, according to Chen Nian, Vancle founder and CEO.

Infinity Group invests in US oil assets

Infinity Group, the Israel-based PE firm created by China Development Bank and local conglomerate IDB Group, has teamed up with oil technology firm Glori Energy to acquire oil-producing assets in Texas from Petro-Hunt for \$40 million.

CDH Ventures invests in online travel site Lailaihui

CDH Ventures has led a new funding round for Lailaihui, a Chinese backpacker travel service alongside existing investor Unity Ventures. Transaction details were not disclosed but the investment was said to be about \$1 million.

PE-backed Luye, Rundong target HK IPOs

Two private equity-backed Chinese companies – Rundong Automobile Group and Luye Pharma Group – are reportedly planning to raise a total

Navis raises \$1.3b for seventh Asia fund

Navis Capital Partners will complete fundraising for its seventh Asia vehicle this week with \$1.3 billion in commitments from LPs. Work will then begin on a shariah-compliant parallel fund, which is expected to close in June, taking the final total to around \$1.5 billion. Sources familiar with the situation told AVCJ that \$1.2 billion has been raised and the impending "interim close" will not



exceed \$1.3 billion. The Malaysia-headquartered GP reached a first close of \$860 million in mid-December after less than three months in the market. It set an initial target of \$1.3 billion with a hard cap of \$1.5 billion.

While the new vehicle remains focused on mid-market buyouts, the geographical remit is narrower – still predominately Southeast Asia but, unlike the previous fund, not India. Navis raised \$1.2 billion for its sixth fund in 2010 and \$1 billion for Fund V three years before that.

Since 2000, Navis has made more than 60 investments, of which nearly 20 have been follow-on acquisitions. As of the third quarter of 2013, the private equity firm's Asia funds had generated a gross IRR of 34% and a money multiple of 3.3x on realized investments.

of \$1.5 billion through Hong Kong listings. Rundong Automobile, a Jiangsu province-based car dealership company backed by KKR, intends to raise up to \$300 million in the first half of this year. Drug developer and distributor Luye Pharma plans to go public in the second quarter at the earliest, raising approximately \$750 million.

Infinity's WLCSP raises \$118m in Shanghai IPO

China Wafer Level Chip Scale Package (WLCSP) – a chip-maker backed by Israel's Infinity Group and China-Singapore Suzhou Industrial Park Ventures (CSVC) – has raised RMB715 million (\$118 million) through an IPO in Shanghai. It is said to be the first China IPO by a firm with foreign co-founders.

Alibaba seeks full acquisition of AutoNavi

Chinese e-commerce giant Alibaba Group has offered to buy the 72% of NASDAQ-listed AutoNavi Holdings that it doesn't already own for \$1.13 billion. The take-private deal would value the digital mapping and navigation firm, which has previously received substantial VC investment, at \$1.58 billion.

BVCF invests in US-based Jaguar Animal Health

China-focused BVCF has committed \$2 million in a Series A round of funding for Jaguar Animal Health, a veterinary drugs developer, with another \$3 million to come by the end of the month. The new financing will be used for medical studies, recruitment, establishing manufacturing capabilities and regulatory activities.

NORTH ASIA

Cerberus completes Kokusai Kogyo exit

Cerberus Capital Management has reportedly completed the sale of its stake in Japanese property operator Kokusai Kogyo for about JPY140 million (\$1.37 billion). According to the Reuters, the New York-based firm – which acquired a 65% of Kokusai Kogyo for an undisclosed sum in 2004 – completed the deal on Friday, selling its remaining 55% stake to the founding family.

Japan photo sharing app developer raises \$1.5m

CyberAgent Ventures, TBS Innovation Partners, Incubate Fund, and Golden Gate Ventures have together invested JPY150 million (\$1.47 million) in Cinnamon, the start-up behind the photo sharing app Seconds. The business was launched in 2012. Its flagship app currently has around 200,000 users across Asia, with a large following in Thailand, Vietnam, and Singapore.

Mitsui, RDIF invest in Russia-based Cotton Way

Japan's Mitsui & Co has teamed up with the Russian Direct Investment Fund (RDIF) to invest in Cotton Way, a commercial laundry and textile management company based in Moscow. The financial details of the transaction were not disclosed.

Globis, Gree invest in video editing platform

Globis Capital Partners and Gree Ventures have together invested JPY300 million (\$2.9 million) in Viibar, the Japanese start-up behind the video production-focused crowd sourcing platform of the same name.

VCs commit \$14.3m to online printing start-up

A consortium of Japanese venture capital investors including Global Brain, World Innovation Lab (WiL), Itochu Technology Ventures and GMO Ventures have invested JPY1.45 billion (\$14.3 million) in Raksul, a Tokyo-based start-up providing online printing services.

SOUTH ASIA

Thomas Cook India, Sterling Holiday to merge

Thomas Cook India, which was bought by Fairbridge Capital in 2012, has agreed to merge with Sterling Holding Resorts India, another private equity-backed firm, in a part-equity, part-cash deal worth INR8.7 billion (\$140 million). The combined entity is expected to be will be India's largest holiday company, with an value of INR30 billion.

WestBridge raises further \$325m for India fund

WestBridge Capital has raised an additional \$325 million from investors for its 2011 vintage WestBridge Crossover Fund, taking the corpus size to \$850 million. The vehicle, which targets PIPE deals, is described as an evergreen fund without a specific investment cycle.

VCs pump another \$13m into PubMatic

Nokia Growth Partners (NGP) has led a \$13 million round of funding for PubMatic, an advertising platform based in India and US. Existing investors August Capital, Draper Fisher Juvetson, Helion Ventures and Nexus Venture Partners also took part in the round.

Sequoia India leads \$18.8m Truecaller Series B round

Sequoia Capital India has led a \$18.8 million Series B round of funding for Truecaller, a Swiss mobile application that helps users identify

Sony agrees to sell Vaio PC unit to JIP

Sony has confirmed that it plans to sell its loss-making Vaio PC division to Tokyo-based mid-market buyout shop Japan Industrial Partners (JIP). Financial details have not been disclosed but previous estimates valued the deal at around JPY40-50 billion (\$394-493 million).

An agreement has been reached with a view to concluding the transaction by the end of March, subject to due diligence and further negotiations on terms. It will be one of the country's highest-profile corporate divestments and part of a business reorientation strategy that would allow Sony to focus on smart phones.

The deal will see JIP establish a new company



into which Sony will sell its entire PC business. The new entity is expected to continue to focus on the sale of consumer and corporate PCs in the Japanese market under the Vaio brand.

In addition, it will seek to optimize its sales channels and scale of operations while reviewing the possibility of further geographic expansion.

The divestment would push Sony into a net loss for the first time in two years for the year ending March 2014, a period for which it previously projected a JPY30 billion profit.

spam callers. Existing investor Open Ocean, company chairman Stefan Lennhammer, and an undisclosed Silicon Valley-based private equity firm also participated in the round.

KKR provides \$100m in to India's Avantha

KKR has agreed to provide \$100 million in long-term financing to Avantha Group in order to help the Indian conglomerate pay down debt and continue investing in its businesses. The capital will come from KKR India Financial Services, the private equity firm's domestic non-banking finance company (NBFC). Avantha's interests span food processing, energy and infrastructure, chemicals and IT services.

CDC backs funding round for e-commerce platform

CDC Group will contribute approximately \$27.5 million to the latest round of funding for Jabong, a fashion and apparel-focused Indian e-commerce platform. CDC has said that the capital will help Jabong grow its business and develop its supply chain infrastructure and technology platform.

Fortisure leads Series C for Indian ad tech player

Jivox, an advertising technology company with operations in India and the US, has raised \$5.8 million in Series C funding led by existing investor Fortisure Ventures. Shah Capital also participated, as did existing investors Opus Capital and Helion Venture Partners.

IDG, Ascent invest in India's Newgen

IDG Ventures India and Ascent Capital have acquired a minority stake in Newgen Software Technologies, a Delhi-based business management services provider, for INR1.1 billion (\$17.6 million). The investment facilitates the exit of Headland Capital Partners.

WestBridge takes minority stake in snack foods maker

WestBridge Capital Partners has acquired 24.9% of DFM Foods, a Indian snack foods firm best known for Crax Corn Rings. The PE firm bought 2.49 million shares from a promoter shareholder for a total of INR645 million (\$10.3 million).

Ex-Standard Chartered director joins BanyanTree

Anshuman Goenka, formerly a director at Standard Chartered Private Equity (SCPE), has joined Mumbai-based private equity firm BanyanTree Finance as managing director.

SOUTHEAST ASIA

Jungle Ventures backs Singapore's Klinify

Klinify, a Singapore-based electronic medical records management service provider, has received S\$770,000 (\$604,000) in seed round led by Jungle Ventures. The new capital will be used to grow the team, expand the user base and improve services.

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Inside or out?

Asian private equity is becoming institutionalized, with increasingly sophisticated and international LPs asking GPs to bulk up their back office capabilities. Third-party administrators sense an opportunity

GP NUMBER ONE IS ONE OF THE ELDER

statesmen of Asian private equity. In operation since the late 1980s, it has raised six funds, the most recent of which closed at nearly \$1.5 billion. GP number two is a country-focused manager that has raised three funds since 2003, the first two largely friends-and-family affairs, while the third – which came in at less than \$200 million – includes a sprinkling of institutional investors.

Two firms, with vastly different asset pools and histories, with one thing in common: they prefer to take care of fund administration in house rather than outsource it to a third-party provider.

GP number one has a finance team of approximately 10, more or less the same size and with roughly the same personnel as a decade ago. Outsourcing has been considered in the past, but ultimately dismissed. “We weren’t entirely comfortable with the services being offered,” an operations executive says. “With our experienced in-house team, we were not willing to give up the control over our data and communications with our investors.”

GP number two’s finance team is smaller – the CFO plus two fund administrators – and the firm has so far chosen not to outsource because it didn’t make economic or practical sense.

“Our funds haven’t been that big and a lot of our LPs, particularly in the first fund, were more close associates. We didn’t really require a fund administrator and the fund sizes didn’t warrant the cost,” an executive at the firm explains. “On our next fund some of the larger pension plans may insist we use an administrator and by then the size may warrant paying that extra \$100,000-200,000 per year.”

Beyond areas such as custodian services, to outsource or not to outsource is traditionally viewed in the context of size, resources and habit. A start-up manager might not need to engage an administrator, but once he reaches a certain scale there are too many funds, with too many investors and portfolio companies for a skeleton internal team to handle. Does he outsource or add to the in house team?

Anecdotal evidence suggests that private equity managers trail their hedge fund colleagues in terms of willingness to outsource, and Asian managers trail their counterparts in

North America and Europe.

The question is whether this template still holds true, and if so, for how much longer. Investor bases are becoming more international; investors seek larger amounts of information from portfolio managers; and increased regulation is placing more pressure on back office operations. Service providers vary in terms of the importance they attribute to each of these factors, but they insist times are changing.

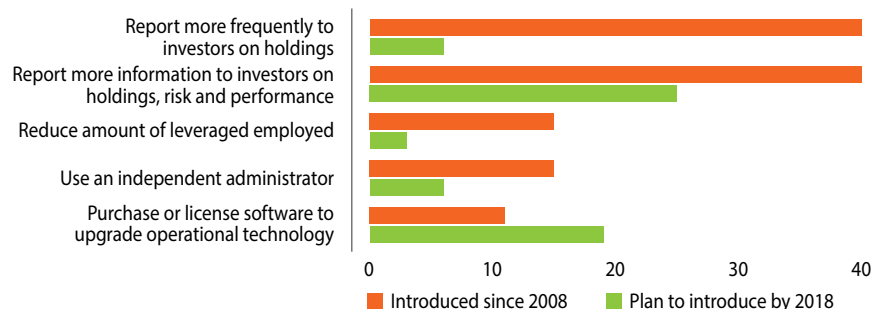
“We are seeing Asia catch up to the rest of the world in terms of the general institutionalization of the GPs as well as the LPs and therefore their interests are aligning with global interest

administrators may support a fundraising but their absence wouldn’t necessarily break it.

“What we are seeing is investors spending a lot more time conducting due diligence on the operational side of GPs,” says Michael Henningsen, managing director at placement agent Park Hill Group. “A lot of the big advisors and LPs have separate operational questionnaires and they want to know who is responsible for each function of the back office. They want to meet with the CFO and spend time with them and any in house accountants.”

Rather than insist on a third-party administrator, the onus is on ensuring that a

Global PE managers’ implemented or planned risk and operational changes



Source: State Street 2013 Alternative Fund Manager Survey

in wanting consistency, standardization, automation and cost effectiveness in their operations,” says Dan McNicholas, vice president for Asia Pacific sales at State Street.

Additional comfort

While McNicholas sees change driven from both sides, LP and GP, others claim the LPs are pushing harder. According to Julian Carey, managing director at Tricor IAG, certain investors out of the US and Europe steer clear of funds without third-party administrators. Sometimes he is contacted by LPs directly, inquiring after the Tricor IAG’s systems and compliance as part of due diligence on a client GP.

In this context, signing up a brand name administrator could pay dividends on the marketing trail. But industry participants argue that the reality is more nuanced – certain

GP’s back office is suitably independent and able to deal with reporting requirements. Small and first-time managers that don’t have in house capabilities are therefore nudged in the direction of service providers. These GPs are often led by deal makers who don’t come from an administration background and see every day spent handling paperwork in terms of potential investments foregone.

At the same time, the step up from Fund II to Funds III and IV can indeed be onerous, simply because there is a semblance of a track record and this attracts more sophisticated investors. While a local family office might focus purely on absolute returns, the likes of pension funds are interested in IRRs, cash flows and geographic distribution as well – and they want to receive this information in a timely fashion and in a consistent format.

For example, Hony Capital's first fund had only one investor – parent company Legend Holdings – and the second and third are said to have attracted no more than 25 LPs between them. Come Fund IV in 2008, investors were flocking to the GP in their dozens, including the likes of California State Teachers Retirement System (CalSTRS) and Canada Pension Plan Investment Board.

"When you make that leap you go from three people in the finance team being fine to three people being anything but fine," says Andrew Ostrognai, a partner at Debevoise & Plimpton. "There have been a number of times when in the middle of negotiations we are presented with all these requests for bespoke reporting and it really does become a question of whether the back office can handle it."

Ostrognai says that his larger clients generally do administration in house while the smaller players outsource it.

The right size?

If the sub \$200 million manager finds outsourcing uneconomical and the multi-fund, multi-strategy GP has sufficient fee income and complexity to build a team internally, this should leave a middle ground – GPs making that leap to Funds III and IV – that are prime targets for the third-party administrators. The administrators endorse this, but only up to a point, noting that in private equity there is no "generally."

First, the costs of outsourced fund administration can be charged to the fund

each of which requires an element of tailored reporting. Using a global administrator, with processes and technology platforms familiar to all parties, can make the information easier to digest and analyze.

Costs fall into two categories: rising salaries for experienced administrators and rising real estate rentals; and then the opportunity cost of having executives focus on financial reporting when they might be pursuing deals or working with portfolio companies.

"Once a manager gets to a large number of funds they are probably able to build the resources in house," says Alexander Traub, managing director for Asia at Augentius. "But is the manager in fund management or fund administration? Most firms that outsource to the right people the first time choose to focus on fund management and leave the administration with the specialists."

Michael Li, product head for private equity services in Asia Pacific at Citi, recalls a recent conversation with a sophisticated manager in Singapore with a well established back office. Out of the blue the manager started asking about potentially outsourcing all the administration, citing costs.

Li adds that, in Hong Kong in particular, relatively few in the industry have gone through the full lifecycle of a fund, which makes building and retaining a professional in-house team that bit harder.

However, there are mixed views among GPs as to the point at which using a fund

over \$2 billion in capital under management, the internal team is well equipped to handle all of the requests for information received from LPs. In the past few years, Headland has made its quarterly reporting more exhaustive, largely in line with the Institutional Limited Partners Association's (ILPA) disclosure recommendations, with more detail on portfolio companies and fund financials.

"We have certain LPs that want their capital account statements within 2-3 days and valuation information very soon after each month end and we are happy and able to deal with those requests" he says. "Communication with our investors would never be outsourced."

Breadth of remit

It is worth noting that a fund administrator's impact depends on the breadth of the remit. Several providers say education is part of their work in Asia. They describe less experienced GPs that have previously not thought deeply about their back office seeing them in action and appreciating this is what they should have been doing all along.

"There are still funds set up in the Cayman Islands that have one board meeting a year to approve the accounts and that's it. All other activities go completely unapproved and unrecorded by the GP board," says Tricor IAG's Carey. "What you wait for is a realization that corporate governance is important and adds substance to what you are doing."

In some cases, progress can literally be measured in terms of boxes ticked. When a prospective client sits down with State Street they are presented with flow chart detailing the various administrative processes and pick the ones they want to outsource.

Managers have different comfort levels – in their ability to see the value in completing a task, in their ability to complete it themselves, and in their willingness to pay a third party to do it for them. They are free to draw the line where they see fit. It starts at light touch accounting and investor reporting and then stretches into portfolio analytics, treasury functions, and corporate administration services.

In the last couple of years, regulatory guidance on the US Foreign Account Tax Compliance Act (FATCA) and the EU's Alternative Investment Fund Managers Directive (AIFMD) has also been in demand. Private equity firms can and do go to law firms and accountants for advice on these issues, but they are still areas in which fund administrators can invest in building competency and thereby differentiate themselves from the rest of the market.

One of the developments in recent years is that has arguably given administrators a bad

"There have been times when in the middle of negotiations we are presented with all these requests for bespoke reporting and it really does become a question of whether the back office can handle it"

– Andrew Ostrognai

whereas an internal team is financed from the GP's own reserves, a situation that is said to be increasingly appreciated and exploited by Asian managers of all sizes.

"A lot of GPs don't realize that LPs are happy to pay for the fund administration," says Tricor IAG's Carey. "As far as the impact on IRR is concerned, the administration fee is negligible. You are talking 5-10 basis points of the total committed fund value."

Second, not all large private equity firms are happy keeping admin functions in house. Efficiency and cost are the primary considerations. A GP might be dealing with hundreds of investors in different jurisdictions,

administrator begins to have a significant impact on workload. Stephen Tang, CFO at China-focused GP Lunar Capital, argues that, regardless of what might be outsourced, a private equity firm still needs to grasp what is going and therefore requires internal staff.

"You always need a core team of finance people to do the day-to-day work – even just to liaise with the fund administrator you probably need one person," he says. "When you have more than 100 LPs or multiple platforms there may be a practical need for a fund administrator, but we can't reduce headcount by outsourcing."

James Stewart, COO at Headland Capital Partners, adds that even with two active totaling

FATCA and AIFMD: A value-add opportunity

Two five-letter acronyms are threatening to re-write private equity regulation, particularly in terms of how funds interact with investors. As such, fund administrators, lawyers and accountants have been inundated with requests from GPs for guidance on the US Foreign Account Tax Compliance Act (FATCA) and the EU's Alternative Investment Fund Managers Directive (AIFMD).

FATCA, which requires foreign financial institutions to disclose the identities of foreign investors and account holders to the authorities as part of efforts to prevent capital flight, is currently seen as the more pressing concern of the two, even though the impact remains uncertain.

"FATCA is something everyone is doing and we are currently on track to be compliant by the end of this month," says Stephen Tang, CFO of China-focused GP Lunar Capital Partners. "The full compliance burden hasn't hit us yet – no one really knows how much extra work will be required."

Compliance begins with screening existing investors and establishing which ones fall under the law's jurisdiction; documents must then be prepared and filed with the relevant authorities. The mechanisms are far more advanced than AIFMD, which addresses how managers can market funds in the EU and to whom, but still lacks implementation guidelines in certain jurisdictions.

"We have a lot more discussions around FATCA than around the European directives," says Alexander Traub, managing director for Asia at Augentius. "It is of more concern to GPs. We have built a FATCA product – and give advice on exactly what it means for their investor base. This is an add-on to the administration services we already provide."

Dan McNicholas, vice president for Asia Pacific sales at State Street, says his firm is assisting PE clients in preparing their own filings and has also done filings on behalf of others. He recommends managers do the first filing themselves in collaboration with third-party advisors, to ensure they understand the process, and then outsource the function from that point forward.

While an Asian GP could skirt AIFMD completely if it is not raising capital in Europe, FATCA is much harder to avoid.

"Within a matter of a few months, almost every single bank in the world will require a FATCA registration and confirmation that the registration has been made," says Julian Carey, managing director at Tricor IAG. "There may be no US-sourced investment income and no US investors in the fund, but there is a body of thought that says you will have to go through FATCA registration anyway because a bank won't deal with you unless you have it."

name is the proliferation of service providers, an inevitable consequence of the proliferation of GPs in Asia. Needless to say it has created volatility in the lower echelons in the market, characterized by intense price competition and compromised quality.

"Five to seven years ago there weren't many fund admin-type operations in Asia but a lot have opened up," says Vincent Ng, a partner at placement agent Atlantic-Pacific Capital. "There are global and local specialists and also a number of firms that previously didn't do any support services but have opened up divisions to do it. The greater the competitive landscape the more pressure you have on fees."

Whereas once it might have been standard practice to charge for administrative services based on the size of the fund, several industry participants claim to have seen audit-style pricing, based on a projected number of man hours. One manager recalls being quoted a

flat fee tied to the number of investors in the fund, with incremental extras dependent on the number of report cycles required and the number of inquiries submitted by LPs. It was a competitive quote but the manager was unconvinced.

"The price pressure makes the margins so thin, they have to scale back, they can't hire good people and the quality of the work drops. It's a vicious circle," he explains. "They generate work that the in-house team then has to correct and return to the administrator before it can be sent to LPs."

Headland had a similar experience. The GP was looking at different PE software systems and spoke to an administrator that was using one of those systems. The outsourcing option was considered as an alternative to building up internal expertise the system.

"In the end, we decided that our internal team using our existing systems could manage

all of our requirements for the current funds," says Stewart. "When it comes down to complicated processes such as waterfall distributions, there are no easy fixes and we don't feel comfortable outsourcing that function in particular."

Rebecca Lam, the private equity firm's CFO, adds that Headland currently does outsource custodian services. However, there are not many firms that are capable of fulfilling this function in all of the countries in which the PE firm invests. And while some custodians do offer fund administrative services, it has been decided to keep those functions in-house for now.

Shifting sands

It is a view some fund administrators might contest. They set themselves apart from plain vanilla providers in terms of the range and reach of their services, at the heart of which is an ability to fulfill a variety of functions across numerous jurisdictions. While boutique service providers were appropriate for a boutique community of GPs, institutionalization and the concentration of assets within a smaller number of firms requires global consistency and presence.

"The smaller guys are finding it tough. The sophistication of the managers has gone up and without the specific knowledge or the infrastructure and technology it is difficult to go after managers," says Citi's Li, who envisages an industry dominated by a handful of players within a few years. "This business is bricks and mortar, boots on the ground – if you don't have that I don't see how you can survive."

The competitive landscape can be divided up into several categories: broad-based asset servicers exemplified by State Street and Citco; administration units of banks like Citi and HSBC; private equity and real estate specialists such as Tricor IAG, Augentius and Langham Hall; and all manner of generalist independent corporate and fund services providers, including Alter Domus and Intertrust.

Listing the pros and cons of each model is unlikely to produce a definitive winner. Large players highlight scope, scale and the ability to invest in technology. Specialists emphasize the difference between private equity and hedge fund accounting, and question whether clients' needs are met by having both competences under the same roof. The bank units must counter claims that they are non-core parts of much larger businesses.

The broader issue is whether Asian fund managers are ready to buy into the value proposition and consider a third-party administrator in the first place. "Our biggest competitor is a GP choosing not to outsource or retain the functionality in house," observes State Street's McNicholas. ▀

Held to account

A legal ruling might ban the Big Four accounting firms' China affiliates from working on US-listed Chinese companies. VCs aren't worried about IPO prospects, but there are longer-term concerns

IT APPEARS TO BE A CLASSIC CASE OF

good cop, bad cop designed to maneuver a recalcitrant adversary. While the Public Company Accounting Oversight Board (PCAOB), America's accounting industry watchdog, is conciliatory when negotiating with Beijing over access to audit documents for US-listed Chinese companies, the Securities Exchange Commission (SEC) is wielding a big stick.

Three weeks ago, the agency scored a potentially big hit: an SEC administrative trial judge recommended the China affiliates of the Big Four accounting firms be barred from working on US-listed Chinese companies for six months. This was the conclusion of a ruling that Deloitte Touche Tohmatsu, Ernst & Young Hua Ming, KPMG Huazhen and PwC Zhong Tian had violated US law by refusing to turn over documents pertaining to 10 companies under investigation for accounting fraud.

The Big Four described the decision as "regrettable" and plan to appeal.

Then, in a dramatic twist to what has become a long-running saga, James Doty, chairman of the PCAOB, last week said he was optimistic of the US and China reaching an agreement that would resolve the long-running dispute. The US authorities might be able to start inspecting the audit work of PCAOB-registered firms based in China, including the Big Four's affiliates, as early as this year.

"The PCAOB have been the good guys, keeping negotiations going and making meaningless agreements like the enforcement cooperation memorandum of understanding (MoU). The SEC has been the bad cop, banning the Big Four and some smaller firms from practice and apparently refusing to negotiate," says Paul Gillis, a professor of accounting at Peking University's Guanghua School of Management.

Half full or half empty?

The doomsday scenario is as follows: if the ruling stands, more than 100 US-listed Chinese companies would be left without an auditor and – with annual reports due April 30 – facing trading suspensions. Multinationals with significant operations in China could also find themselves drawn into this mess.

Those seeking to go public in the US would

be forced to opt for another jurisdiction, delay their plans in the hope that the two governments can reach a swift resolution, or press ahead with a lower-tier auditor.

There are not appetizing prospects but companies and their venture capital investors are not necessarily alarmed at the situation. Rather, there is mild frustration at being caught up in a wider political dispute over which they have no real influence.

"This decision reflects the frustration at the lack of progress during three years of ongoing discussions," says Jeff Maddox, a Hong Kong-based partner at law firm Cadwalader, Wickersham & Taft.

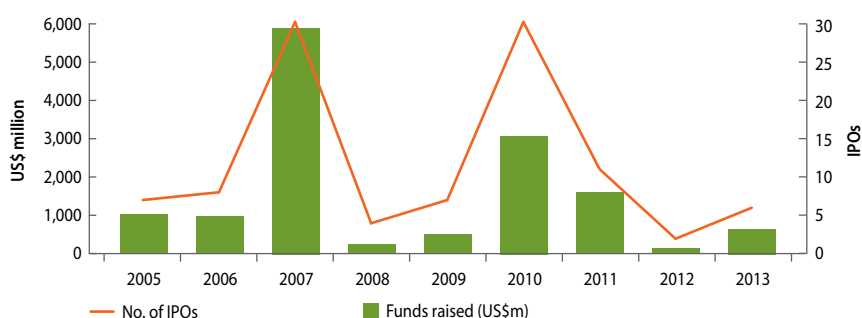
"A lot of our US reporting clients have moved to the Big Four from smaller accounting firms, partly because of the reputational risks

It was estimated that at least 350 companies had taken the RTO route over a 10-year period, with the PCAOB identifying 159 between 2007 and the first quarter of 2010 alone. Share prices of US-listed Chinese companies slumped, even those that were completely untainted, and investor appetite for IPOs disappeared.

However, when the SEC asked accounting firms' China affiliates to audit documents so the frauds could be investigated there was no cooperation. The China Securities Regulatory Commission (CSRC) doesn't allow China-based auditors to share paperwork with foreign regulators.

Last June there was a breakthrough as the CSRC, China's Ministry of Finance and the PCAOB signed their enforcement cooperation MoU. The January ruling confirmed suspicions that it was a

Chinese VC-backed IPOs in the US



Source: AVCJ Research

and to show stronger auditors. Some of these companies have been listed in the US for years and have never had any issues with frauds or accounting irregularities."

Frauds and accounting irregularities at a number of US-listed Chinese companies started making headlines in the second half of 2011. The naming and shaming, often led by short seller research firms, continued well into 2013. Targets tended to be companies that had gone public via reverse takeovers (RTOs) – which involve less regulatory scrutiny than IPOs – in the early 2000s.

Many were audited by smaller accounting firms that didn't have the experience or resources to conduct adequate inspections of financial statements in China.

false dawn. Critics describe the eight-page MoU as "too light," adding that the document didn't manage to address how US regulators could conduct routine inspections of accounting firms in China.

"It's important to recognize that the ruling indicates a governmental disagreement, not just a jurisdictional issue," says Drew Bernstein, co-managing partner of Marcum Bernstein & Pinchuk (MBP). "It sends a clear message to both the Chinese and the US governments that the people working in the China space are getting very upset so US regulators feel pressured to get something done through the jurisdictional system."

With the Big Four's appeal process likely to

take anywhere between four and 12 months, there is time to address the problem. The impact on companies trading or seeking to trade on US bourses will therefore be delayed and, if indeed it is imposed, the ban only lasts six months. Those directly involved tell AVCJ they are not hugely worried.

"Right now everything is going step-by-step but I think in the near future – at least this year – it wouldn't pose any issues to the audits," says J.P. Gan, managing partner at Qiming Venture Partners, who heads the audit committee for US-listed travel bookings site Ctrip.com and sits on the board of both Jiayuan.com and Taomee Holdings.

Kaiser Kuo, a spokesperson for Chinese internet giant Baidu, says they "believe the chances of actual share suspension in the US are vanishingly small."

IPO outlook

Neither are the developments likely to rein in the IPO market, which gathered pace during 2013 and is now in top gear. Approximately 30 VC-backed tech firms are in various stages of IPO preparations, with the US their favored destination.

JD.com, China's largest online retailer after Alibaba Group's TMall, filed for an offering of up to \$1.5 billion on NASDAQ. The announcement came less than two weeks after the ruling against the Big Four. Alibaba Group is also expected to go public in the US this year. Others making preparations include software provider Kingsoft Corp, real estate website Anjuke.com, gaming company Chukong Technologies and online cosmetics retailer Jumei.com.

"This will be an interesting year," Gan says. "We have several portfolio companies looking at different listing venues. Most of VC investors are treating it as a temporary issue and we're optimistic that the issue will be resolved. Everyone, including investment bankers, lawyers and accountancy firms, is pushing for IPOs. Processes are not slowing down."

Yet at the same time Chinese enthusiasm for US listings has cooled compared to a few years ago. Until relatively recently this could be explained in part by the rise of renminbi-denominated private equity funds and the interest in domestic IPO exits. That fervor has dimmed but there remains a sense among Chinese companies that they are not welcome in the US. This could have serious long-term ramifications.

"The ruling has the potential to cause chaos in the market down the road. If the ruling is upheld, companies may need to delist and then re-list, perhaps in Hong Kong. It's not helpful to the market and it's not the solution to the conflict of

laws problem," says Cadwalader's Maddox. "It is just a one-off punishment in relation to the 10 cases subject to the decision."

More than 120 VC-backed Chinese players have raised \$15 billion through US IPOs since 2000, according to AVCJ Research, reaching a peak in 2007 when 30 offerings raised \$5.8 billion. There were six IPOs in the second half of 2013, trailing the total of 15 seen in 2011, but a vast improvement on the two completed in 2012.

On the other hand, 11 private equity-backed take-private deals for US-listed Chinese companies have been completed since August 2011 and about 15 more are in process. Shanda

running at a loss, as is the case for many tech firms – the exchange was caught up in a spat with Alibaba last year over the latter's listing plans.

Hong Kong endorses the "one share one vote" approach and does not allow the dual-class structures that allow the founders of US-listed companies to retain control post-IPO. Alibaba proposed a bespoke ownership structure, whereby 28 senior executives would be able to nominate a majority of the board members despite only holding a combined post-listing equity stake of around 10%. It was rejected out of hand.

"Most of the VC investors are treating it as a temporary issue and we're optimistic it will be resolved. Everyone, including the investment bankers, lawyers and accountancy firms, is pushing for IPOs"

– J.P. Gan

Games, the NASDAQ-listed online gaming subsidiary of Shanda Interactive Entertainment (SIE), is the most recent addition to the tally.

Meanwhile, Shanda Games' sister company Cloudary Corp. withdrew its US IPO application in July, having originally filed in May 2011. Robert Chiu, chairman of Cloudary and president of SIE, told AVCJ at that time at time the "unfriendly" market environment created by the accounting scandals was the key factor behind the decision.

Some accounting firms have also been turned off by the US market. BDO Hong Kong shifted its business strategy to focus on Hong Kong three years ago, in anticipate of increased demand for auditing services from Chinese companies looking to go public in the city. The firm severed ties with BDO China Dahua, which had worked on US listings for Chinese companies, and replaced it with a new affiliate.

"Chinese companies still have room for improvement in corporate governance. In this context, the risk for these firms going public in the US is quite high because class action lawsuits are common practice there," says Albert Au, chairman of BDO Hong Kong.

He is also uncertain as to whether the US and Chinese governments can resolve their accounting dispute and expects more companies to list in Hong Kong as a result.

Imperfect solutions

However, it remains to be seen if Hong Kong is willing to accommodate these companies. In addition to operating under a merit-based approvals system – which precludes companies

Unless attitudes change, the US is likely to remain the first choice of tech entrepreneurs. And this requires the support of large investment banks and Big Four accounting firms. "It's an industry custom," says Qiming's Gan.

There remains the possibility of a temporary switch to a second-tier auditor, but these firms are not immune to the regulations imposed on the Big Four.

"After the ruling was announced, we did get calls from clients of the Big Four asking about alternatives if the worst did happen," says MBP's Bernstein. "But as a second-tier firm, I don't think it would benefit MBP in the long term. We already do a lot of business for the Big Four's clients – providing consulting and audit assistance for some smaller mergers and acquisitions. In the end we need the Big Four to keep the ecosystem healthy for all of us."

There are about 110 PCAOB-registered accounting firms in China and Hong Kong firms. Should the SEC make a request to see audit documents, any one them might be subject to a ban for non-compliance because they are also bound by the CSRC's restriction on sharing paperwork.

There is no escape from this situation without a proper breakthrough between the CSRC, SEC and PCAOB.

"The ruling is designed to get people's attention, which it certainly has, but ultimately different solutions will have to be broached between the regulators themselves rather than individuals involved in particular cases," says Cadwalader's Maddox. ▀

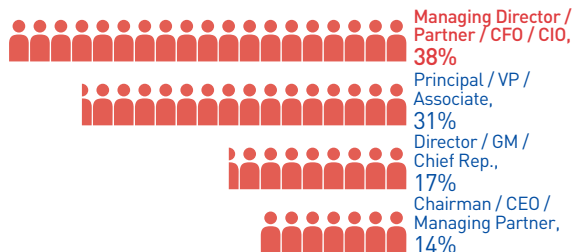
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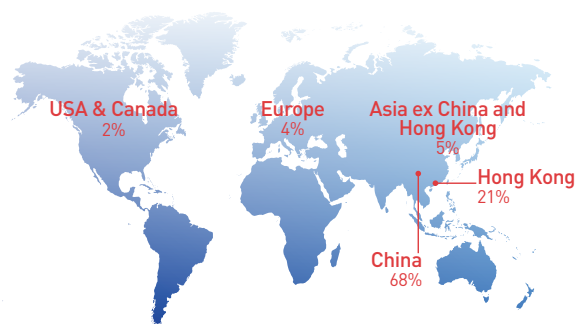
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Catalyst completes cool exit

THROUGHOUT LAST YEAR'S ELECTION

campaign, Australian Prime Minister Tony Abbott pledged to repeal the country's carbon tax on taking office. Five months on, he has yet to do it and the debate rumbles on as to whether the drop in emissions – 0.3% for the year ended September 2013 – is worth the A\$7 billion (\$6.2 billion) the government says it costs per year.

Actrol Group can claim to have benefited from the legislative change. When the tax was introduced in July 2012, it was accompanied by price hikes on refrigerant gases. Not only would Australia's biggest carbon emitters have to meet the cost of pollution; industrial users of cooling systems run on ozone-depleting HFCs would too.

Farmers and retailers reported price increases of up to 400% on certain commercial refrigerants. The incentive was there to switch to non-ozone depleting HFCs, which meant stronger sales for a ventilation and refrigeration components and systems manufacturer like Actrol.

"With the Montreal Protocol [an international treaty targeting substances that damage the ozone layer] and the carbon tax, there is a move

to phase out refrigeration gases that have high levels of hydrocarbons," says Simon Dighton, managing director at Catalyst Investment Managers. "People are phasing out old equipment or retrofitting it."

This was one of the business drivers that saw Catalyst more than double Actrol's turnover to A\$240 million in the space of four years. Having injected around A\$75 million into Actrol during its ownership period, the GP sold the business to listed plumbing and bathroom products manufacturer Reece Australia at the end of January for A\$280 million.

Catalyst bought Actrol from GSA Industries in May 2010 for an enterprise valuation of around A\$100 million, with company management taking a minority stake. At the time it was a wholesale business, specializing in refrigerant gas, controls and valves, air conditioning and refrigeration units and servicing equipment.

Within six months, the PE firm completed the bolt-on acquisition of AC Components, which supplies heating and cooling units and components to the residential market.

Dighton adds that Catalyst opened about 20 stores – there are now 61 Actrol outlets and 18 AC Components outlets – in addition to diversifying the product offering and improving working capital efficiency and sourcing.



Keeping its cool: Actrol Group

The exit came in response to reverse inquiries from domestic and offshore companies, starting in early 2013. Reece, which has more than 400 stores

throughout Australia, said the deal represented an opportunity to establish a presence in the refrigeration and air conditioning industries.

It is the first exit from Catalyst Buyout Fund 2, which reached a final close of A\$598 million in 2009. "We would look to do one more exit to demonstrate the health of the fund before thinking about returning to the market," Dighton says. ▀

Premji tries Myntra on for size

THE GROWTH OF INDIAN E-COMMERCE IS

well documented and recent estimates by online marketplace and industry poster child Flipkart illustrate just how much farther it has to go. According to Sachin Bansal, Flipkart's co-founder and CEO, e-commerce grew by 80% in 2013 and it will continue to expand at this pace for the next 5-6 years, reaching \$70 billion by 2020.

Myntra Designs, a Bangalore-based online fashion retailer, is the latest firm to benefit from this optimism. It raised a \$50 million round of funding led by Premji Invest, an investment arm owned by Indian tycoon Azim Premji, with Tiger Global, NEA-IUV, IDG Ventures India and Accel Partners also participating.

Early investors Accel, which provided Myntra's seed round in 2007, believes the company has identified a winning formula.

"We're bullish on e-commerce, and within that, fashion and lifestyle may be the single largest sub-category," says Subrata Mitra, a partner with Accel. "We believe the opportunity size is likely to grow as much as 10-20 fold in the coming 4-6 years, and that is something Myntra

is uniquely positioned to take advantage of."

As a retailer of clothes, footwear and accessories, Myntra is not only taking advantage of e-commerce growth but is also tapping the fast-expanding female consumer segment. According to a Google India report, 60 million of the country's 150 million internet users are women, and 75% are aged 15-34. Their favorite search category is apparel and accessories.

The challenge for Myntra, which has raised \$75 million since its launch, is capitalizing on these trends while cultivating a dominant position in a market that is not only highly competitive but also consolidating. "Most of the capital prior to this round has been utilized to get them into a leadership position in the Indian fashion e-commerce space," explains Mitra.

Myntra has been on the acquisition trail in the last year or so, picking strategic assets. This latest of round of funding will be used to further scale up the business, improve technology infrastructure and strengthen the Myntra brand. The company is aiming to achieve \$1 billion in gross merchandise value by 2016. Flipkart, which

sells fashion items and other products, thinks it can cross this threshold a year earlier.

"We would like to ensure that Myntra dominates this space for the foreseeable future, by making the right investments in team expansion, our private label business, augment



Trend setter: Myntra raises another round

products with thought-through content, and by building mobile capabilities," adds Mitra.

What exit route investors will take is unclear at this stage. Last month it was reported that Flipkart approached Myntra about a potential merger, at the behest of its VC investors. Accel has a stake in both companies. Mitra dismisses this as speculation. "We're patient investors," he says, "and don't have any specific exit timeframe in mind." ▀

Rapid diagnosis

STIC Investments backed Access Bio when the Korean-led malaria testing technology player wanted to buy key components and expand output. Now KOSDAQ-listed, the company has its eye on specialty diagnostics

ANTIBODIES ARE THE BUILDING BLOCKS

of Access Bio's malaria testing kits. The company, US-incorporated but founded by a South Korean scientist, is at the forefront of in vitro rapid diagnostic tests (RDTs), which allow speedy detection of malaria in developing countries where the disease is so prevalent yet the equipment and technicians required for microscopic analysis are lacking.

The parasite that infects blood cells, causing malaria, produces antigens and these are what the RDT is designed to search for. A blood sample is taken from the patient and mixed with a chemical buffer and the antibody in a small plastic cassette. If antigens are present, the antibody binds to them and the chemical reaction is visible in the cassette's test window.

RDTs are relatively cheap to produce and easy to transport; and the results of a test, which can be carried out in a patient's home, are known within 15 minutes.

The World Health Organization (WHO) endorses RDTs because they reduce the amount of money spent on anti-malarial drugs by ensuring suspected cases are not treated presumptively. The 31 manufacturers that have participated in the organization's testing program have seen sales jump from less than 50 million units in 2008 to 205 million in 2012, most of which were bound for Africa. Access Bio's CareStart RDT continually ranked first in the testing program during this five-year period.

However, in 2011 the company was in a quandary. It bought antibody clones used in its malaria RDTs from a US company called Flow, Inc, but the founder wanted to retire and so put the products up for sale with a \$6 million price tag.

"The founder appointed Access Bio as the primary purchaser but we didn't have enough money," says Young-Ho Choi, the company's CEO. "These clones are the most important component in immunodiagnostic products. We were worried they would go to our competitors, which would mean we couldn't manufacture the malaria products any longer."

Access Bio reached out to STIC Investments for help. The private equity firm duly pumped in KRW12.5 billion (\$11 million) – to cover the Flow purchase and boost manufacturing capacity – for a 28.9% stake. Access Bio saw its sales rise from \$11.4 million in 2010 to \$32.8 million in 2012,

while operating profit more than trebled to \$7.5 million over the same period.

The company went public in May 2013, STIC selling shares before and during the IPO to reduce its holding to 15%. The investment has already generated a multiple of 2.3x and the full return could be as high as 5x, with the remaining stake currently worth around KRW38 billion.

"Access Bio is the first US-based biotech company to list on KOSDAQ so the Korean exchange was very enthusiastic about the IPO. That drove a lot of interest from the market, not only from the institutional investor side but also from the retail side," says Mik Park, who leads STIC's investments in biotech and healthcare.

Indeed, the company has experienced something of a post-IPO hangover. After hitting the exchange's 15% price volatility limit on each of its first two days trading, Access Bio's stock has

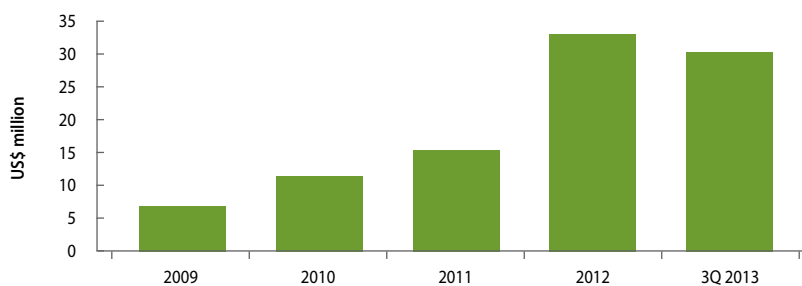
started out developing dengue, scrub typhus and pregnancy RDTs, supported by a handful of employees. Initial funding came through a \$400,000 bioscience grant from the New Jersey Economic Development Administration – Access Bio was founded in New Jersey – and \$2 million from the US Department of Defense.

The switch to malaria RDTs in 2004 did not represent a huge leap because the platform is similar to dengue. Medecins Sans Frontieres (MSF) evaluated CareStart products in a field study against competing RDTs and it proved to be the stand-out performer.

The release of the MSF report in 2006 was the springboard by which Access Bio came to wider attention. Endorsements from the WHO, the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the UNICEF duly followed.

These organizations do not make direct

Access Bio sales



Source: Company reports

since slipped from its peak of KRW12,350 to just shy of KRW10,000. Choi adds that the company is coming to the end of its "adjustment period."

Biding its time

STIC's investment in Access Bio was not opportunistic. Park came across the business in 2008 through the Samsung Advanced Institute of Technology, as the first malaria RDT was becoming established. He was impressed by the technology and research capabilities, but decided to hold back; revenues were only \$2-3 million, so it was too small a target.

By this point, Access Bio was already six years old. Choi, who had a decade's worth of experience working for diagnostic companies,

purchases of RDTs, rather they conduct test and make recommendations to purchasers. Major buyers include John Snow, Inc, a US-based public health research and consulting firm, and the Partnership For Supply Chain Management (PFSCM), a non-profit dedicated to creating secure, cost-effective and sustainable supply chains to meet the needs of healthcare and other public services.

In addition, the health authorities of countries and territories suffering from malaria are responsible for their own purchasing programs.

"We don't need to do customer marketing. It is more interacting with each country and educating them and letting them know that our products are recommended by the WHO," says

Choi. "We also participate as a member of the malaria control group and are actively involved in policy making. We are scientists so we have views on product specification and technical ideas, and then there is a lot of discussion about standardization to ensure products are user-friendly and safe."

The WHO estimates that more than one billion diagnostic tests – including RDTs and other solutions – are required, with Africa alone needing 600 million. Between 2010 and 2012, the proportion of suspected malaria cases receiving diagnostic tests in the public sector rose from 44% to 64%, and from 37% to 61% in Africa specifically.

Although 31 manufacturers have participated in the WHO's testing program, Access Bio is one of three companies that between them control more than 80% of the malaria RDT market.

Expansion plans

Meeting this rising product demand was only possible through automation of Access Bio's manufacturing processes. The acquisition of the Flow assets meant the company could vertically integrate its supply chains and STIC sent in consultants to work on this and other areas.

"We helped them improve production efficiency through adopting automated processes," says Park. "We have an internal team of full-time advisors who previously worked at Samsung Electronics and have experience running manufacturing facilities."

The private equity firm also introduced Access Bio to one of its other portfolio companies, China-based Triplex International Biosciences. Triplex manufactures medical diagnostic reagents and related equipment – primarily for the detection of Hepatitis B and C and certain cancers – as well as running a chain of diagnostic centers. Its products are sold in more than 1,800 hospitals, clinics and health centers across China.

Negotiations are still in their early stages, but it is hoped that Access Bio can use the Chinese company's distribution network to expand the market for its RDT products.

Access Bio now has 50 full-time employees and 300 part-time assembly line staff at its US headquarters. It has a manufacturing facility in Ethiopia with three key personnel and 30 part-time workers, and recently established a presence in Korea, hiring a further 20 full-time employees.

The product pipeline has expanded from a variety of malaria RDTs to include mutant malaria and G6PD RDTs – and in both cases Access Bio was the first to commercialize this technology globally.

The G6PD product is especially important because it identifies cases in which the body

doesn't have enough of a certain enzyme that helps red blood cells function normally. If primaquine – a medication used to treat malaria – is administered to patients with G6PD deficiency it can cause abnormal breakdown of the red blood cells, potentially resulting in death.

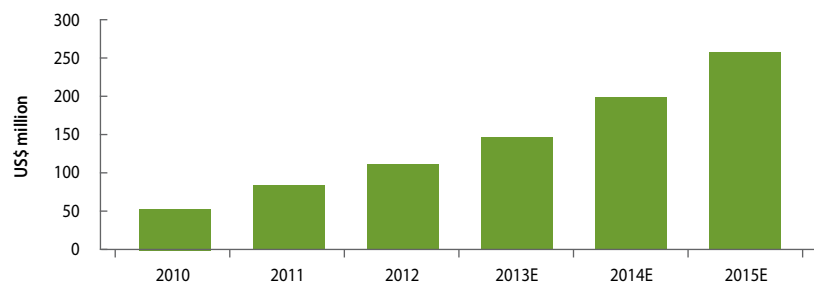
"Without knowing the G6PD status they can't give out drugs because if the patient is deficient it will have dire side effects," Choi explains.

CareStart G6PD RDT, which goes into commercial use this year, detects the enzyme. A G6PD reader and biosensor, intended to improve the accuracy of results analysis, are at the clinical and feasibility testing stages. It is estimated that 5% of the global population – 57% in Asia and

Access Bio took ownership of a technology called TotalPlex that amplifies pieces of DNA, facilitating, among other things, the detection and diagnosis of diseases.

"The human genome has been sequenced and now technology is so advanced and so affordable," says Dr. Young S. Hong, Access Bio's director of business development. "The technology used to detect those sequences – the polymerase chain reaction – is so sensitive it's like detecting a needle in a haystack. We have patented technology that finds targets in a very sophisticated way. If the DNA sequence is available we can develop a good product in a short space of time with excellent specificity."

Malaria rapid diagnostic testing market



Source: WHO World Malaria Report 2012

the Middle East and 23% in Africa – suffer from this deficiency. Access Bio has identified a target market of 46 million patients in Southeast Asia and the Middle East and 174 million in Africa, with \$400 million to be made from selling RDTs.

Malaria and G6PD RDTs currently account for 80% of the company's revenues, with the remainder coming from sales of reagents, antibodies and semi-raw materials for HIV testing. Products under development include RDTs for dengue, typhus and influenza. There are also moves to expand into animal and veterinary diagnostics, starting with a swine diagnostics solution.

Getting specialized

However, Access Bio's management is most excited about molecular diagnostics, which would allow the company to further diversify its business from that of competitors in the RDT market. The global molecular diagnostics industry was worth \$9 billion in 2009 and it is expected to grow to \$15.5 billion in 2014 and then \$42.5 billion in 2019.

In September of last year, the company acquired YeBT, a Korean venture focused on researching biomarkers and developing diagnostic techniques for DNA and protein chips. In addition to absorbing YeBT's R&D team,

YeBT has developed molecular diagnostic tests for diseases such as HPV, CAH and leukemia that are ready to be commercialized. The HPV product is expected to be commercialized as early as the second half of 2014 and Hong claims its performance is equal to or superior than the current market leaders. The plan is to price it attractively and target developing markets such as Latin America, Southeast Asia and Central Asia.

Other molecular diagnostics offerings will focus on screening tests for organ transplantation. By comparing the genetic backgrounds of donors and receivers, it is hoped that the odds of a successful match can be substantially reduced.

The future for Access Bio therefore lies in specialty diagnostics and the IPO was timed in part to provide capital that can be invested in these areas. Park believes this approach could see the company's revenues continue to accelerate: having grown roughly 10-fold in the last five years, he estimates they could reach \$200 million within the next five years.

"Companion and individualized diagnostics will be the next market-leading products in healthcare," adds Choi. "Individualized healthcare will be more effective for patient care, and as such become more popular and affordable as biotechnology continues to advance." ▀



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