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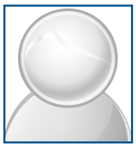

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Evolution of the spin-out

TRADITIONALLY, PRIVATE EQUITY SPIN-outs have fallen somewhere along a scale that features autonomy at one end and greed (or, more kindly, a desire for talents to be appropriately rewarded) at the other, with innate entrepreneurism occupying the middle.

A PE professional in Asia chokes at the bit held by an investment committee in the US or Europe. His deals are held up to scrutiny against transactions emanating from Western markets and the individuals doing the scrutinizing are unfamiliar with the dynamics of Asia. His discoveries are debated in boardrooms far away and the final push comes too late or not at all.

Alternatively, the professional successfully executes and nurtures investments that are beyond the reach of his colleagues yet is obliged to give up the lion's share of the spoils to them. There comes a point when he asks if the effort and hassle is really worth it. Working for a global brand name brings kudos and being able to draw on a deep pool of resources is helpful, but only where that brand is recognized and the value-add is relevant. A Chinese entrepreneur might not care less about them.

Going it alone – one or more star dealmakers accompanied by a small band of willing juniors – means freedom and potentially higher compensation; there are fewer mouths to feed from management fees and carried interest. Some LPs actively encourage spin-outs, keen to ride with a team that is liberated, financially incentivized, and has something to prove. It is not unusual for teams to bring a ready-made pipeline of deals with them, which gives prospective backers a clearer sense of what they are backing.

At least nine of Asia's top 50 fundraises are the work of genuine spin-outs. From Affinity Equity Partners and MBK Partners in the early to mid-2000s to FountainVest Partners and Primavera Capital in the present decade, plenty of first-time managers but not first-time investors have raised funds of $1 billion or more. It is also hard to draw a line in the sand. After all, CDH Investments did spin-out – although it was at a regulator's insistence, while the parent, China International Capital Corporation, is not a global firm.

Spin-outs get traction as long as there are LPs willing to back them, and so, to some extent, success depends on market sentiment. At the same time, the localization mantra espoused by spin-outs from global firms has been absorbed by the global firms themselves; teams within Asia are more local than before and in a number of cases more empowered.

Successful investment professionals will no doubt continue to strike out on their own, combining the best practices – and LP contacts – accumulated at global firms with the knowledge and networks to operate effectively on the ground. But is there a phase two spin-out, a defining characteristic of such GPs that is removed from the autonomy-greed scale?

The increasing maturity and complexity of the industry in Asia would suggest not, but there are trends worth noting. One is strategic.

There are employees of global firms who have no grievances about compensation, colleagues or investment committees, yet still feel the urge to depart. The reason is that as fund sizes and equity checks become larger, the number of feasible investment targets in certain markets declines. A private equity executive might become bored or frustrated; he is seeing plenty of deals, but none of them fit his firm's remit.

It isn't necessarily a purely geographic phenomenon. As strategies and specializations proliferate in Asia, there are more ways to eke out value in an industry that must think about more than just multiples arbitrage.

The urge to go independent is there, and provided the departing executive isn't setting up in direct competition to his former employer the transition process doesn't have to be painful. Indeed, the new GP may even walk away with an LP commitment in his pocket, or at least an informal agreement to cooperate and share deals above a certain size.

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NEWS

ASIA PACIFIC

ADB, Orix, Robeco form Asia climate-change fund

The Asian Development Bank (ADB), Japan's ORIX Corp. and Netherland-based Robeco Institutional Asset Management have together formed a private equity fund that will focus on investments in climate-friendly industries such as cleantech and renewable energy. Asia Climate Partners will initially receive capital commitments totaling of $400 million from the founding partners.

Natixis Global forms private equity division

Fund-of-funds Eagle Asia Partners is one of six groups in the newly-formed private equity division of Natixis Global Asset Management (NGAM). Eagle Asia and the other groups will retain their autonomy and have complete management independence – in line with Natixis' multi-affiliate structure.

AUSTRALASIA

Healthscope climbs 5.2% on ASX debut

Shares in Healthscope, a hospital operator backed by TPG Capital and The Carlyle Group, rose 5.2% to A$2.21 on the first day of trading following the largest Australian IPO in four years. The two PE firms sold 311.5 million shares via the offering – which valued the company at A$3.83 billion ($3.6 billion) – at A$2.10 apiece, leaving them with a collective 32.5% stake.

PE-backed Metro Glass goes public in New Zealand

Metro Performance Glass – a New Zealand glassmaker whose backers include Crescent Capital, Anchorage Capital and Sankaty Advisors – raised NZ$244.2 million ($227 million) through an IPO and then saw its shares appreciate 5.9% on its stock market debut.

GREATER CHINA

CIC sees 9.3% gain on overseas investments

China Investment Corporation (CIC) saw a 9.3% return on its international portfolio in 2013 as strong stock market performance saw the sovereign fund's exposure to public equities rise at the expense of other assets classes, including long-term investments like private equity. CIC's total assets stood at $652.7 billion at the end of the year, up from $575.5 billion in 2012. Investment income rose from $83.5 million in 2012 to $92.5 million in 2013.

Baring Asia, Altas buy stake in Grenada university

Baring Private Equity Asia, alongside Canadian private equity firm Altas Partners, has acquired a substantial stake in St George's University, a Grenada-based medical school. Financial details were not disclosed but the deal is said to be worth around $750 million. Chancellor Charles R. Modica, the university's founder, will remain the single largest shareholder in the business alongside senior management.

There are more than one million medical school applicants across Asia every year and Baring is expected to leverage its education capabilities throughout the region to help St George's University broaden its reach, according to a source familiar with the transaction.

Founded in 1976, St George's has programs in both medicine and veterinary medicine. It is one of a number of Caribbean schools popular among students unable to get a place at medical school in the US. The university has more than 6000 students enrolled, and over 14,000 former graduates practicing in 50 countries worldwide - most of whom are involved in primary care. More than two-thirds of the students in the school's four-year MD program are US citizens with the majority returning to the US for residency programs. However, the school says it is looking to expand its global reach and attract more students from places like Africa and parts of Asia.

Pork giant WH Group gains 10.6% on HK debut

Shares in WH Group, the Chinese pork producer backed by investors such as CDH Investments and Goldman Sachs, gained as much as 10.6% on its first day trading today after the company raised HK$15.3 billion ($2 billion) on its second attempt at an IPO. The offering valued the company at about 11.5x projected forward earnings, compared with 15-20x for an IPO in April that was scrapped.

China Life to buy $250m TPG stake

China Life – the world's third largest insurer – is to acquire a stake in TPG Capital for $250 million. The size of the stake is unknown but it is reportedly between 2% and 5%. The possible deal comes months after the China Insurance Regulatory Commission (CIRC) approved an application by China Life to use proprietary funds for overseas investment.

EQT exits Taiwan's Gala TV

EQT Partners has exited Taiwanese cable TV operator Gala Television Corp. to the management of local conglomerate Formosa Plastics Group. The buyer is Yung-tsai Investment, an investment vehicle owned by Formosa's co-founder, Wang Yung-tsai, Wang Weng-Tsao, chairman of Formosa Plastics Marine, a subsidiary of the group, and Wang Wen-Yuan, president of Formosa Plastics Group.

VC-backed iDreamSky jumps 6% after $116m IPO

Shares in iDreamSky Technology - a Chinese third-party mobile game publisher backed by Legend Capital and Redpoint Ventures - jumped 6.42% on the firm's NASDAQ debut. The company raised $116 million by offering 7.7 million shares at $15 apiece. The stock touched $19 on debut before eventually closing at $15.94.

CMC leads $49m round for entertainment firm Yuehua

CMC Capital has led a RMB300 million ($49 million) Series B round of financing for Yuehua Entertainment, a Chinese music and movie producer. Gravity Media, a Chinese advertising firm, also took part in the round. Founded in 2009, Yuehua produces and distributes music and films. It also offers artists' training, event planning and digital media promotion.

Partners Group acquires 12% of Venator RE fund

Partners Group has acquired a 12% stake in Trophy Property Development (TPD), a $1 billion

China-focused property development fund managed by Venator Real Estate Capital. The transaction was the result of a 31 LPs selling down their interests via a secondary auction process that began last December.

IDG leads Series B round for China online grocery

IDG Capital has led a $100 million Series B round of investment for Chinese online grocery store Womai.com. Existing investor SAIF Partners also participated. Womai was set up in 2009 by Chinese state-owned food conglomerate COFCO as an online, B2C food and beverage play.

NORTH ASIA

Bain sells Bellsystem24 stake to Itochu

Bain Capital has sold a 49.9% stake in Bellsystem24 Holdings to trading house Itochu Corporation for an undisclosed amount. It will retain a 50.1% interest in the company. Bain acquired Bellsystem24 from Citigroup Capital Partners Japan for JPY100 billion (then $1.16 billion) in 2009.

Line backs Gumi, launches $100m developer fund

Messaging app start-up Line Corp. has agreed to acquire a less than 10% stake in Gumi, a VC-backed Japanese game developer. The size and value of the deal is still under negotiation. Line also plans to launch a JPY100 billion ($98 million) fund to invest in Japanese game developers.

DRC Capital launches Fund III, holds $25m first close

Japanese mid-market buyout shop DRC Capital has launched its third buyout fund - Japanese Limited Partnership DRC III - quickly followed by an initial close of JPY2.5 billion ($25 million). The fund was launched on July 31 with a hard-cap of JPY15 billion.

Gree, Atomico lead $35m Series B for Japan news app

Japanese internet gaming firm Gree, and tech-focused investor Atomico, have led a JPY3.6 billion ($35.4 million) Series B round investment in SmartNews, the start-up behind the news curation app of the same name. Other investors include existing backer Globis Capital Partners and social networking site Mixi, among others.

PE firms battle for Australia's Treasury Wines

Australia's Treasury Wine Estates (TWE) has received competing buyout offers from TPG Capital and a KKR-Rhône Capital consortium that value the firm at A$3.37 billion ($3.15 billion). TWE was initially subject to a bid of A$4.70 per share from KKR in April. The board rejected the offer and so KKR returned, this time with Rhône, and bid A$5.20 per share. Another investor – understood to be TPG – then matched the offer.

A number of strategic players have also been linked to TWE – owner of brands such as Penfolds, Rosemount Estate and Wolf Blass – including China's Bright Food Group, French wine giant Pernod Ricard and US-based Constellation

Brands. Bids will be assessed on whether they deliver a value proposition superior to the expected benefits from TWE's current plan to increase consumer marketing investment in the company's brands, drive efficiencies and improve the cost base, and address structural opportunities for mid-tier brands as well as seek organic expansion for the higher-end portfolio.

TWE reported a net profit of A$42.3 million in the 2013 financial year, down 52.9% year-on-year, while revenue increased by 4.8% to reach A$1.76 billion. The weak performance was largely due to a scaling back of US inventory, incurring a pre-tax material item expense of A$154.2 million, and slower sales in China.

SOUTH ASIA

Flipkart raises a record $1b from VC backers

Indian e-commerce firm Flipkart has raised $1 billion from new and existing backers. The round was led by existing investors Tiger Global Management and South African media company Naspers. Singapore sovereign wealth fund GIC Private, Morgan Stanley Investment Management, DST Global, Accel Partners, Iconiq Capital and Sofina also took part in the round. This latest investment values the company at around $7 billion.

Xander Group invests $65m in realty firm Supertech

The Xander Group has invested INR4 billion ($65 million) in India realty firm Supertech to finance township and housing projects in Gurgaon in North India. Supertech is to spend a total of INR11 billion developing plots, villas and independent homes in the 140-acre township. The private equity firm will own an approximately 50% interest in the development.

VC Reservoir reaches final close on maiden fund

Indian early-stage investor Reservoir Investment Managers has reached a final close on its maiden fund, Exfinity Technology Fund - Series I (ETF-I) at INR1.25 billion ($20 million). The GP announced a first close of INR1 billion in June and, with the green shoe option, it has now collected INR25 million more to close the fund.

SOUTHEAST ASIA

Blackstone to invest up to $800m in Tamarind Energy

Blackstone has committed to invest up to $800 million in Malaysia-based oil and gas exploration and production start-up, Tamarind Energy, alongside management. The investment is being made via Blackstone Energy Partners.

CVC completes another Matahari part-exit

CVC Capital Partners completed another partial exit from Indonesia's Matahari Department Store, selling 335 million shares for a reported price of IDR14,000 apiece to raise IDR4.69 trillion ($398.1 million). In doing so, the private equity firm reduced its holding to about 17% from 25%. CVC previously sold 6.5% of Matahari in March for IDR2.49 trillion.

GIC sees increase in PE exposure in 2014

Singapore sovereign wealth fund GIC Private has upped its exposure to PE alongside bonds and emerging market equities for the year ended March 2014. The fund saw private equity investments make up 9% of its asset mix for the year, against 8% in March 2013.

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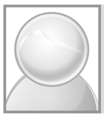
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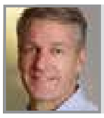
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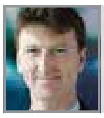
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The Modi effect

The election of Narendra Modi has breathed new hope into India's beleaguered economy, with private equity investors anticipating much-needed reforms. But the road to recovery is long and likely uneven

IN THE FIRST FEW MONTHS OF THIS YEAR there was a clear sense that the Indian economy was bottoming out. In February, in the run-up to the general election, the International Monetary Fund (IMF) estimated that GDP growth would decline to 4.6% for the year ending March – about half the level of three years ago. The fund also noted that India's slowdown was unusual among emerging markets in both its severity and the fact it has coincided with elevated inflation. It seemed that things could not get any worse.

In this context, it is understandable that the hopes of a nation were pinned so resolutely on Nahenrda Modi, delivering the Bharatiya Janata Party (BJP) leader a landslide election victory. The 64-year-old career politician from Gujarat, with his apparent runaway popularity and business-friendly credentials, is seen as the perfect anecdote to an outgoing government that for years had been plagued by apathy and inertia.

However, as the celebrations die down, the real business of getting India back on track has begun. The new administration's opening salvo came last month with the Union Budget. Hastily put together just three months after the election, the budget lacks detail but serves as a statement of intent for Modi's promises of big change and big business.

For private equity specifically, it is hoped that the positive macro-economic impact will not take long to trickle through to the asset class. The industry wants to see an energized government bring down some of the barriers that have hindered investment of late. It is clear what needs to be done; and the improved sentiment will only last provided Modi starts doing it.

A return to confidence

With the election just a few months gone, the government is still enjoying a honeymoon period.

"The Indian capital markets have responded very positively, with the stock market rallying strongly ahead of the elections in anticipation of a BJP victory," says Rajiv Biswas, chief economist for Asia-Pacific at IHS. "The large majority won by the BJP and its allies has further boosted investor sentiment with the anticipation that the new government will be able to make significant reforms to boost growth."

The effect on the markets could actually be seen as early as December, when local elections pointed to a national BJP victory. Opening on the Friday following the Modi's win, however, the benchmark Bombay Stock Exchange Sensex index was up more than 4.5%, the strongest opening for the Indian markets in five years. The index has since made further gains and is up 24% from the start of the year. Part of the reason for this reaction is that, while it was widely accepted that Modi would emergence from the election victorious, it was uncertain whether he would get the majority needed to push through reforms.

But the BJP alone managed to win 279 of the 543 seats in the Lok Sabha, the lower house of the Indian parliament. This comfortably crosses the half-way mark 272 seats, something that hasn't been achieved since 1984. The BJP-led coalition, meanwhile, took a total of 320 seats.

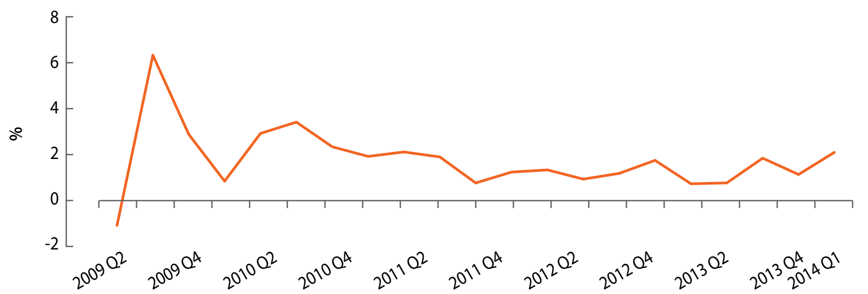
This means the government will not need to solicit partners to get through specific legislation, potentially making compromises that would hinder, or water-down, much-needed reforms.

The impact of the elections on GDP has been less dramatic. According to a Reuters poll of economists conducted last month, growth is expected to speed up significantly this financial year but forecasts have since been trimmed. While GDP growth is still expected to surpass the sub-5% levels seen over the past to year, predictions do not mirror the stock market hype. Economists project expansion of 5.3% for the current financial year, down from calls of 5.5% made during the election period.

In the short terms at least, the public markets boost can help tackle the one the major issues for Indian private equity in recent year: exits.

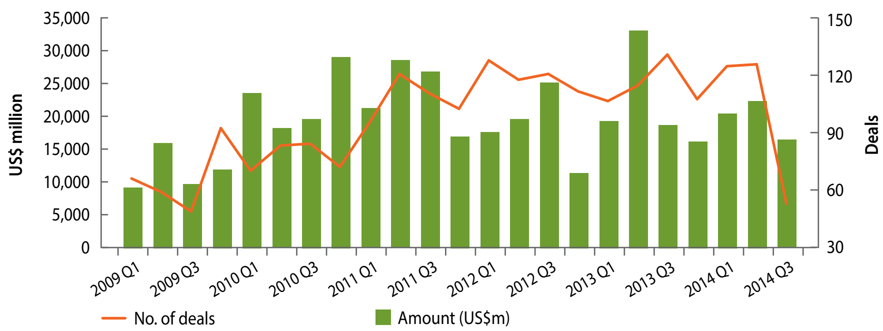
AVCJ Research data shows that private equity

India GDP growth



Source: Organization for Economic Cooperation and Development

India PE investment



Source: AVCJ Research

Boon time: Smart cities and infrastructure

India has one of the fastest rates of urbanization in the world. According to the most recent census data, Mumbai's population reached 12.5 million in 2011, representing 3.1% increase on 2001. The fastest growing city was Delhi which saw headcount swell by 4.1% to 11 million over the same 10-year period. At current growth rates, the population of each is expected to reach 25 million and 16 million, respectively, by next year. Nationally, India's population is set to expand by 200 million in the next 15 years.

To meet the demands of swelling urban population, the government's Union Budget outlined plans for 100 so-called "smart cities" intended to boost long-term economic growth and global competitiveness over the next 10 years. According to Rajiv Biswas, chief economist for Asia-Pacific at analytics firm IHS, the total investment associated with this development could be far in excess of $1 trillion, with a significant share coming from foreign governments and private sector inflows.

To many, the smart cities strategy represents the first comprehensive effort by an India government to upgrade the country's urban infrastructure. Opportunities to get involved in the provision of electricity, transport and information technology systems for expanding urban centers is likely to be a big draw for investors.

"A number of major international project developers such as Singapore's Ascendas India Development Trust and Dubai's Tecom Investments are already involved in smart cities projects in India, " Biswas tells AVCJ. "The potential economic impact from the development of India's smart cities development will act as a significant catalyst for economic growth through a number of drivers, including increased foreign direct investment (FDI), accelerated development of real estate investment trusts (REITs), increased competitiveness and job creation."

Archana Hingorani, CEO and executive director with infrastructure investors IL&FS shares the view that smart cities will be a boon for both the Indian economy and private equity.

"I think the biggest thing will be the pick-up in the economy from an infrastructure standpoint," she says. "Not only will investment into sectors like roads, airports and smart cities create better infrastructure, it will also generate private equity investment opportunities into the core sectors and the ancillary companies - that will be able to demonstrate strong growth and some rewarding exits."

Total FDI entering India across all sectors came to $28 billion in 2013. The accelerated development of smart cities in conjunction with the roll-out of REITs could see a substantial increase in this figure in the medium-term, Biwas argues.

Using AVCJ Research data as a guide, a boost in India infrastructure investment would be most welcome. Last year saw just $326 million transacted across six deals, the lowest in decade. This year has not fared much better with $354 million transacted across three deals. This is just a fraction the 2006-2007 peak when nearly $1.7 billion entered the sector over a two-year period.

exits amounted $5.2 billion last year. While this sum appears high compared to previous years – 2012 and 2011 saw exits of $5 billion and $2.9 billion, respectively – it should be placed against the $24.2 billion that was committed to India-focused vehicles between 2006 and 2008. A lot of capital has yet to make its way out of the system and the fundraising struggles of recent years suggest LPs have lost patience with the market.

"Largely in the past few years exit transactions have been either strategic sales or trade investors coming in," says Archana Hingorani, CEO and executive director with IL&FS. "With the possibility of IPOs on the other hand, the public markets now offer a third alternative."

Since 2009, India has seen 53 private equity-backed IPOs that have raised collective proceeds of $5.8 billion. This compares to $161.4 billion from 679 China IPOs over the same period. The gap narrows in terms of trade sales – $11.5 billion generated in India versus $27 billion in China – but it does not obscure the fact that India's public markets have failed to deliver for PE as they have in China. There is considerable unrealized potential.

However, Vikram Hosangady, head of transactions at KPMG India, notes that more public market valuations can be a double-edged sword. "Most people believe capital market will be more robust in the next two years and that is a positive from exit standpoint," he says. "But on the investment side it is threat. Many promoters will not go the private equity route as they can raise money through the capital markets."

Currency capitulation

Poor public markets liquidity has not been the only issue stifling exits in India, though; the weakening rupee has also contrived to make valuations less appealing from the perspective of US dollar-denominated funds. "So many people came in when it was between INR45-50 on the dollar," Hosangady adds. "Having the rupee stay at over INR60 makes exits less attractive."

At time of writing, the rupee was hovering around INR61 to the dollar, still quite a bit weaker than the sub-INR50 levels reached in 2011, but an improvement on mid-2013 when the currency depreciated sharply, plummeting as low as INR70. This had been due to slowing economic growth and the widening current account deficit, which reached a peak of 4.8% of GDP in the first quarter of the current financial year.

"Since Raguram Rajan, the new governor of the Reserve Bank of India (RBI), took office in September 2013, the rupee has stabilized and gradually appreciated," says HIS's Biswas. "This stabilization has been helped by government measures to reduce the trade deficit as well as renewed portfolio capital inflows into the Indian stock market on hopes that Modi will generate an economic recovery in India."

The man charged with bringing through measures that will drive this recovery is Finance Minister Arun Jaitley who presented the budget last month. More an outline of the government's intentions than a granular policy document, it has nevertheless been received positively by the private equity community.

"He provided a realistic budget that emphasizes good governance," says Sanjay Nayar, CEO and India country head with KKR. "Now it's important to move quickly to revive the economy by boosting economic growth and enforcing fiscal consolidation."

With this in mind, the government has set out some clear and ambitious goals. First, Jaitly has vowed to expand annual GDP growth to 7-9% within three to four years, following two years of sub-5% growth. He is targeting a reduction in the 2014 fiscal deficit of 4.2-4.3% of GDP from 4.5% at the end of 2013. In the two years following that, the deficit is supposed to narrow further to 3.6%.

A raft of modest measures outlined in the budget have gone some way to making these goals seem more achievable by easing regulations, promoting infrastructure and offering a degree of clarification over ongoing offshore taxation issues.

These measures include a substantial increase in the foreign direct investment (FDI) limit – from 26% to 49% – across the defense and insurance

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sectors; changes leading to the recognition of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts; and proposals to extend a 15% government rebate on investments in excess of INR250 million in new plants and machinery over a 12-month period so it covers mid-cap as well as larger manufacturers.

Wish fulfillment

However, a number of private equity investors are still agitating for reform in other areas. Ever since the fallout from Vodafone's acquisition of domestic mobile service provider Hutchison Essar in 2007, foreign investors have been calling for clarity on the tax treatment of offshore transactions involving onshore assets. The government has said it will not bring new retrospective litigation against companies, but existing cases could still come under attack.

KKR's Nayer is no exception when he says reducing this uncertainty should be priority. "If this can be done adequately, clarifying the government's stance on taxes will go a long way to boosting investor confidence," he says. "This is also important because India has a pretty low tax-to-GDP level. If the government can figure a way to improve this balance, it will lead to an increase on the revenue side."

Another revenue issue that repeatedly rears its head is the introduction of a goods and services tax (GST), which has been bogged down by years of negotiations between the federal and state governments. A type of value added tax, once introduced, the GST will replace all indirect taxes levied on goods and services at any level of government.

> **"The large majority won by the BJP and its allies has further boosted investor sentiment with the anticipation that the new government will be able to make significant reforms to boost growth"**
>
> – Rajiv Biswas

"The implementation of the GST will provide a major boost to Indian industry by removing many of the taxation hurdles across Indian states due to the current complex array of varying state sales taxes," explains IHS' Biswas.

The success of these reforms ultimately rests on the government maintaining sufficient policy momentum to keep its promises. It is a tricky balance of optimism and realism: investors must buy into the positive effects of change while accepting that it might not come as quickly as desired.

"People are impatient about the rate at which change will come and there will be some frustration,' says Mark Kahn, founder of agriculture-focused GP Omnivore Partners. "But we have already suffered from a decade of mismanagement, neglect and a general apathy, so I think what has happened since the election is a rebirth. People at least believe the government is serious about getting the country back on the growth track."

KPMG's Hosangady shares this view. He stress that the appetite has always been there but all political inertia and a lack of support for business has stopped the country from achieving its potential. "When we talk to our clients it is clear India is back in favor now," he says. "The question is whether over the next 12-18 months the Modi government can deliver on most of what it is supposed to. If it does, India could be very different story."

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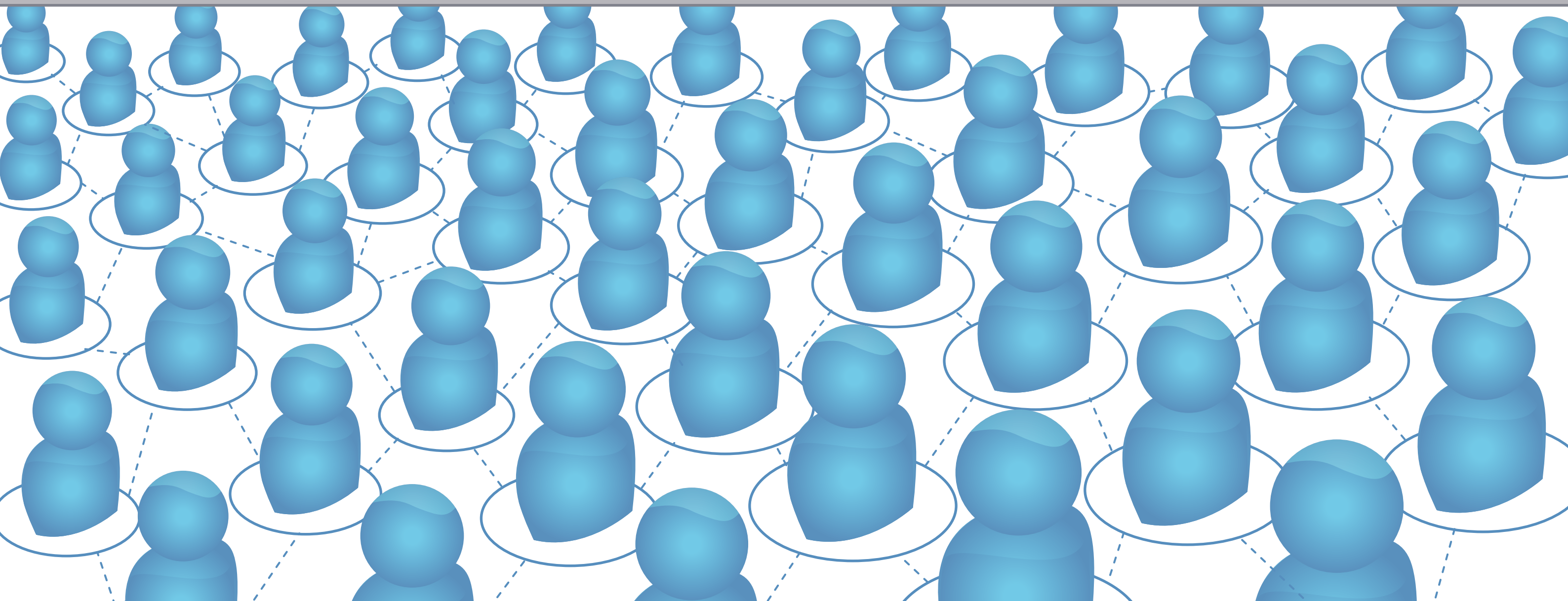

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Omnivore has sunny outlook for SkyMet

WITH AROUND TWO-THIRDS OF INDIA'S 1.2 billion-strong population reliant on farming for a livelihood the importance of the monsoon season to the economy cannot be overstated. A weak monsoon can cut exports, drive food price inflation and ultimately cause havoc elsewhere in the consumption chain, such as demand for cars and household goods.

Weather-based agricultural insurance is essential to farmers looking to mitigate the risk of failed a crop. To meet this demand, insurance firms require reliable and consistent weather data which – until recently – has been lacking in India.

Weather and crop forecast solutions provider SkyMet, which has just raised $4.5 million in a Series B round of funding, is filling the gap. The round was led by dmg::information Asia Pacific, a unit of UK media group Daily Mail & General Trust (DMGT). Around 40% of the round was covered by SkyMet's Series A backers Omnivore Partners, which specializes in agri-tech innovation in India.

"Traditionally agricultural climate data in India have not been very accurate, so a lot of what SkyMet is doing on the risk analysis side is building the data that were never really there before," explains Mark Kahn, founding partner with Omnivore.

The 2011 Series A round – Omnivore's first investment from its INR2.5 billion ($40 million) maiden fund – saw the GP put in INR45 million for a 33% stake. Kahn explains how the business fit perfectly within the GP's investment theses: an execution play where there is very little competition, huge first mover advantage and the ability to scale very rapidly.


Weather woes: Farmers suffer

"The owner had bootstrapped the business at first, but after a couple of years found he really needed a capital infusion in order for it to take off," says Kahn. "He needed money to invest in good IT, good talent and good infrastructure. He met with us and we looked at the business, spoke to his customers who loved it, and we realized we had a gem of a company."

Set up in 2003, SkyMet is now the largest B2B weather monitoring service in India. Through its cloud-based information platform and risk management service, it provides data to clients across several sectors including media, power, shipping, aviation, construction and telecom. Major clients include Thomson Reuters, the Ministry of Agriculture, the World Bank and Monsanto.

The plan is to expand the company's network further and penetrate every corner of the country. The new funding will used to build a data center that will layer on top of SkyMet's monitoring network. Capital will also go into research and development for better weather and crop yield forecasting. The company will then expand overseas.

"They are beginning international expansion," Kahn says. "They are looking at opportunities in other parts of Asia and Africa. There will be a big sales and marketing push too, and they will be re-launching their consumer website in late August."

PLDT, Rocket look to the skies

SMART EMONEY, A MOBILE PAYMENT business owned by Philippine Long Distance Telephone (PLDT), first ventured overseas in partnership with Mastercard in 2010. Together they worked on the credit card provider's global mobile payments platform, intended to facilitate payment solutions in developing markets. The platform has expanded across Latin America, with services launched in Brazil and Argentina.

Now PLDT – whose wireless operations are run through Smart Communications – has taken another step in its quest to establish a multi-jurisdictional footprint. The company has bought a 10% stake in German e-commerce incubator Rocket Internet for EUR333 million ($444 million). It has also agreed to help develop payments and remittance infrastructure for Rocket's portfolio of emerging markets start-ups.

There are plenty of "unbanked, uncarded and unconnected" consumers in Asia and Rocket has incubated start-ups such as Zalora and Lazada that can claim to have gained traction in the region, particularly Southeast Asia.

But PLDT is consciously looking beyond its home markets. Beneath the Rocket mother ship lie regional holding companies and then the individual businesses themselves. If PLDT were interested in consolidating its position as the Philippines' leading telecom provider – the company generated revenues of PHP168.3 billion – it didn't need to put money into the German parent.


PLDT: Mobile payment player

"The operational plan is joint development of mobile payment technologies for deployment globally," said a source familiar with the transaction. "Rather than have a joint venture in Asia PLDT wants exposure to Latin America, Africa, Russia, and so on."

The investment, which will be structured as a subscription to new shares, is Rocket's first from an Asian strategic partner. The firm has previously worked with AB Kinnevik, Access Industries and Global Founders, all of which are from Europe or the US. While an Asian affiliation is helpful as the company aggressively expands its portfolio start-ups in the region, securing mobile payment expertise was a priority and Smart eMoney handled $4.5 billion in transactions last year.

"Financial technology is a key focus sector for Rocket and this partnership will allow us to build on PLDT's world-class innovations in mobile money and micro-payments and accelerate the delivery of those solutions around the world," said Oliver Samwer, founder and CEO of Rocket.

The transaction is also notable in that it values Rocket at EUR3.3 billion ahead of an IPO mooted for later this year – although PLDT's entry price is likely discounted, based on its expected contribution to the partnership.

The incubator claims to have industrialized the start-ups, thereby reducing the risk of failure, although it has drawn criticism for its rapid roll-out of cloned business models and equally rapid withdrawal if they don't work out. But Rocket has still created an emerging markets empire that employs 20,000 people across 100 countries with aggregate revenues in excess of EUR700 million.

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PE's long-term bet on a temporary solution

The Executive Centre has seen four different financial owners as its serviced office business has grown. CVC Capital Partners is the latest custodian tasked with taking the company to the next level

THE CALENDAR ON HEADLAND CAPITAL Partners' investment in The Executive Centre (TEC) is approaching the five-year mark, but the private equity firm is not yet hankering for an exit. The process that led to CVC Capital Partners taking a majority stake in the serviced office operator earlier this year was not the standard dual-track IPO and trade sale affair; several PE firms and trade buyers approached Headland and expressed their interest in the asset.

CVC made approaches to both TEC's CEO and Headland, and then came up with a deal structure that satisfied all parties. The transaction – said to value TEC at $220 million including debt – took about four months to close. It is the first investment out of CVC's fourth pan-Asian fund, which closed at $3.5 billion in May.

"CVC cleverly came up with a solution. Firstly, it allows us to realize a significant gain on the investment. Secondly, it incentivizes management to continue to drive the business to grow," says Paul Kang, senior partner at Headland. "As a private equity fund, we have to realize liquidity over time but it was also very important for Headland that the business ended up in good hands, enabling the management to feel comfortable to continue developing the company."

Rare in the market

CVC is TEC's fourth institutional financial owner. Headland – then known as HSBC Private Equity Asia – acquired a majority stake from New York-based hedge fund Marathon Asset Management in December 2009, which in turn had bought the business from GEMS in 2007.

TEC dates back even further, to 1994 when New Yorker Paul Salnikow was deployed to Hong Kong by his then employer, a Saudi-backed US investment group, in search of new opportunities. He needed a base and looked for a serviced office – a familiar concept in the West – and found there weren't any. Recognizing an underserved niche in the real estate market, Salnikow founded his own company, TEC, and positioned it as a premium service provider.

"Sometimes the best product is the product you need for yourself," says Salnikow.

Focusing on the top end of the market – which meant snapping up prime locations in Hong Kong – required a large amount of capital if the business was to grow fast enough to meet demand for serviced offices. With this in mind, Salnikow initially sought out global institutional investors, but subsequently decided that Asian-based players would be more useful.

"Over time, I learnt that private equity investors must be Asia-based. Why is that important? Because they need to understand the market and look at the market from the same perspective as we do," he explains. "We had an investor based in New York [the hedge fund, Marathon] but when they went through the global financial crisis their view of the world was filled with fears and worries. In Asia, the financial crisis actually quickly turned into an opportunity in 2010-2011."

Demand for serviced offices was on the rise as more multinational corporations were looking to expand in Asia, but still wary in the wake of the crisis, they were not prepared to sink large amounts of capital into real estate. If a company was only dipping a toe into Asian markets with a few people on the ground, it didn't want to buy space that might ultimately go unused. Renting a serviced office allowed the company to focus on its core business, while minimizing operational costs and not worrying about admin work.

Salnikow chose Headland as its second Asian private equity investor. The PE firm leveraged its relationships Citi, DBS and HSBC to obtain loans for TEC so the company could build upon its 28 centers in 14 countries. Headland also helped TEC on infrastructure development, which included setting up an effective customer relationship management system and strengthening and incentivizing management.

"We helped them focus on ensuring that every new center we opened generated a meaningful return. For example, we tried to make sure that each new center reached profitability as quickly as possible, as well as maximizing profit potential. The rationale being that, the faster we reached profitability, the quicker TEC could open more centers and build scale," says Kang.

Before Headland invested, it was used to take TEC around nine months to break even after opening up a new center. This has now

The Asian Markets

Country	Market	Centers	Proportion of centers in business district locations (dark blue)	Price range	US$ rate
China	Shanghai	66		$$	$715
	Beijing	30		$$$$	$1,010
	Guangzhou	11		$$	$690
	Shenzhen	8		$$	$565
Malaysia	Kuala Lumpur	27		$	$380
Thailand	Bangkok	22		$$	$385
India	Mumbai	21		$$$	$770
	Bangalore	13		$	$240
Indonesia	Jakarta	20		$$	$515
South Korea	Seoul	14		$	$465
Taiwan	Taipei	12		$$	$615
Philiphines	Manila	9		$	$315

Source: Instant Offices

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shortened to four months. Profit margins have also increased from 20-25% to at least 35%.

"The management team is passionate. It's not like we have to persuade them to do this. We just had to provide the guidance and they executed on the agreed strategy," adds Kang.

Over the course of four years, the PE firm supported TEC as it expanded to more than 60 centers across 20 locations. Annual revenue increased from $50 million in 2009 to in excess of $100 million, while profits tripled in size. The company attracted major corporations such as tech giants Apple, Google, and Facebook, and banks including HSBC, Deutsche Bank and Morgan Stanley.

Despite this rapid growth, TEC is not yet thought ready for a public listing. "The timing probably isn't right for TEC to go public right now. We're very happy with the company and we want to stay invested. Today it's still $100 million in revenue. It's profitable, but getting a listing is probably more meaningful when the business is larger," Kang explains.

Fragmentation factor

Part of the expansion opportunity lies in consolidating what remains a highly fragmented serviced office market globally. While Regus, the dominant brand, has a market share of only 20%, no other provider boasts more than 2%. Asia is considered as the fastest growing region in the world, but it currently accounts for just 12% of global supply.

The penetration of premium office services – TEC's area of focus – is even smaller in Asia. Service offices are responsible for 1% of Grade A office occupancy in developed , with only about 1% in developed Asian markets such as Japan and Hong Kong, and 0.2% in emerging markets like India and Malaysia. In London and New York, the share is around 10%.

"Frankly, we could go to London or New York tomorrow. The reason we're not yet is not because of lower client demand; it's because we should make sure that management capabilities are strong enough to sustain growth. We should be powerful in our domestic market in Asia before venturing into America and Europe," says Salnikow.

TEC aims to generate $120 million in revenue by the end of this year, largely driven by existing centers that generate a steady 30% year-on-year growth in EBITDA. The company operates 30 centers in China, which alone account for about 30% of total revenue, the largest contribution of any region. Indian, meanwhile, has seen the fastest growth, expanding from one office center in 2009 to a current tally of seven.

TEC's ultimate aim is to go public within five years. As the company builds up its capabilities, Salnikow says it still needs a private equity partner to structure the business and help improve operations. "CVC will take us to top-tier level," Salnikow adds. "Each group has contributed to different stages of our growth. Perhaps Headland's ownership was our teenager years, and CVC is likely to be in our young adult years."

As to what TEC can aim for in partnership with its new majority owner, he looks no further than Luxemburg-based luggage manufacturer Samsonite. CVC helped restructure Samsonite in 2007 following a downturn in business due to the global financial crisis, before listing it in Hong Kong five years later.

"Some private equity groups only do trade sales or they cut costs and then re-sell the portfolio companies. CVC has a good record of working with management. CVC won't stick in around forever and they will move on to seek for liquidity. So we have agreed a business plan over the next four to five years, with a targeted value and planned exit methodology," says Salnikow.

> **"They have retained a minority stake in TEC, which really speaks to the quality of the business and the growth potential of the sector"** – James Redmayne

Largest serviced office providers in Asia

Provider	Rank
The Regus Group	1
The Executive Centre	2
Servoorp	3
CEO Suite	4
Nomad Space	5

Source: Instant Offices

Confident vote

TEC appealed to CVC because of its niche at the premium end of the Asian serviced office market, its high-quality management team, and the strong underlying industry dynamics. Headland's willingness to retain a minority stake also encouraged the incoming PE investor.

"Going forward, they have retained a minority stake in TEC, which really speaks to the quality of the business and the growth potential in the sector," says James Redmayne, a director with CVC's pan-Asian team.

CVC and TEC have together drawn up a business plan that includes a number of initiatives. Firstly, TEC wants to enlarge its Asia footprint from the current 66 locations to 100 over the next five years, including first forays into Malaysia and Thailand. As a result, the enterprise value of the business is expected to triple in size to more than $1 billion.

Secondly, service quality will improve. TEC is looking to introduce a new form of client management system called Global Account Management. At present, the company addresses customer needs on a local basis. A Hong Kong-based center will only provide services to a company within Hong Kong; there is no interaction with centers in other markets. Under the new system, TEC will not only deal with the likes of Apple in Hong Kong but work with companies to understand their office requirements globally and provide a more unified service.

It's a simple idea but it requires investment in systems and training people," Salnikow says.

Thirdly, TEC is working on adding new revenue lines to the business through the provision of additional value-added services for corporate customers, such as company formation, legal advice and business travel arrangements.

What will not change is the importance of securing prime locations for serviced office centers, and CVC is expected to help with this too. "CVC has an expansive global network and we will tap into this so that TEC can continue its disciplined roll-out of new centers. For example, a number of the investors in CVC's funds also have real estate arms and so we will make them aware of the TEC offering and how they can add value to existing and new commercial office developments across Asia," says Redmayne.

The company's premium focus is also popular among landlords as it effectively serves as an incubator for high-quality clients. When customers reach a scale at which it makes sense to own their own premises, they depart a TEC serviced office – the average rental period is about 30 months – and tend to move onto another floor in the same building. Convenience is everything.

"In 4-5 years' time we believe TEC will be in a position to be a very successful public company, listed either in Hong Kong or Singapore," Redmayne adds. "Or, given the strength of the business and the attractions of the serviced office model, there could be interest from trade players and real estate developers."

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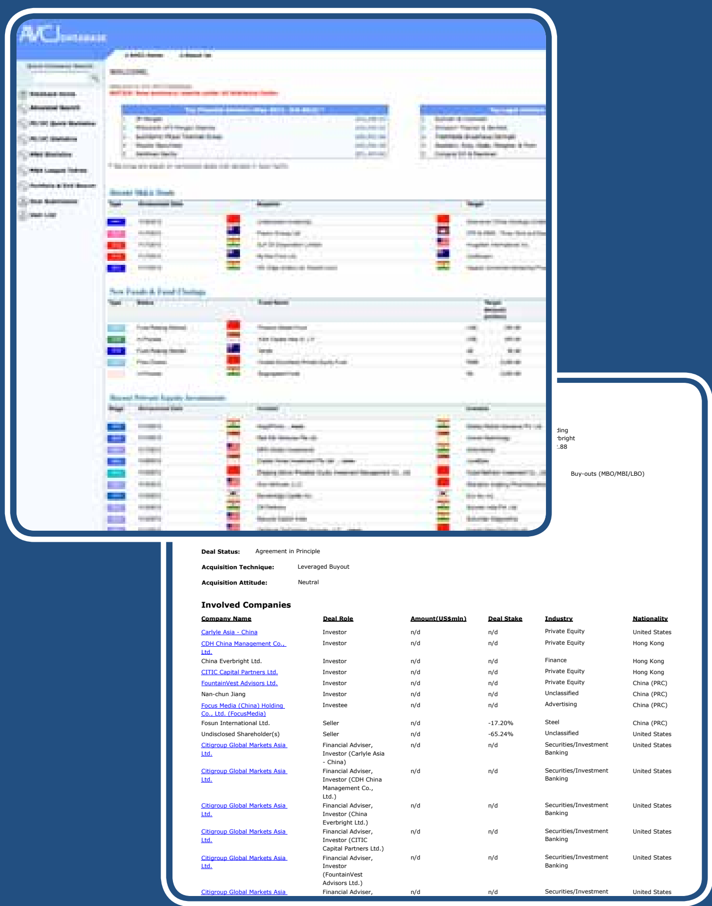

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PRIVATE EQUITY IN ASIA

Investment Breakdown by Country From 1 January to 31 July 2014

Investee Country	Amt. Invested US$mln	No. of Deals	(Disc.)	No. of Investees
China (PRC)	13,044.8	373	245	369
Hong Kong	6,925.5	20	13	20
India	5,835.9	293	233	286
South Korea	5,713.1	82	77	82
Australia	4,594.5	51	42	51
Japan	3,856.4	297	239	296
Singapore	3,093.1	39	33	39
Malaysia	844.9	3	3	3
Philippines	444.8	6	5	6
New Zealand	372.5	6	4	6
Indonesia	176.7	15	9	14
Taiwan	103.3	10	7	10
Thailand	32.1	8	5	8
Myanmar (Burma)	7.4	2	1	2
Mongolia	0.4	1	1	1
Vietnam	-	4	-	4

FUND-RAISING MONITOR

CLOSED FUND

Location:	Hong Kong
Fund Name:	Morgan Stanley Private Equity Asia IV, L.P.
Closing Amount:	US$1.7 billion (final close)
Launch Date:	June 2012
Fund Manager/Advisor:	Morgan Stanley Private Equity Asia Limited
Legal Adviser:	Debevoise & Plimpton
Stage Focus:	Buy-outs (MBO/MBI/LBO), Expansion/ Growth Capital, PIPE Financing, Turnaround/ Restructuring
Industry Focus:	Consumer products/services, Financial services, Manufacturing - Heavy, Manufacturing - Light, Services - Non-Financial
Geographical Focus:	Australia, China (PRC), India, Japan, Singapore, South Korea, Taiwan
Contact:	Brad Wargo
Phone:	(852) 2848-6906
Email:	brad.wargo@morganstanley.com
Website:	www.morganstanley.com/institutional/pe-asia.html
Update:	Morgan Stanley Private Equity Asia has closed its fourth pan-Asian fund, Morgan Stanley Private Equity Asia Fund IV, at approximately US$1.7 billion, over the target of US$1.5 billion. Fund IV follows a similar strategy to that of its predecessor, pursing a combination of minority and control investments in public and private mid-sized growth businesses. It primarily focuses on the consumer, financial services, industrial products sectors, as well as service-related businesses in general.

NEW FUNDS

Location:	Japan
Fund Name:	ANRI No.2 Investment Enterprise, L.P.
Target Amount:	JPY 2 billion
Launch Date:	July 2014
Fund Manager/Advisor:	ANRI
Stage Focus:	Start-up/ Early Stage
Industry Focus:	Computer related, Information technology
Geographical Focus:	South East Asia, Japan, United States
Contact:	Anri Samata
Phone:	(81) 3-3501-6644
Email:	anri.samata@gmail.com
Website:	http:// anri.vc
Update:	ANRI has held a first close of its second venture capital fund at JPY 500 million. ANRI No.2 aims to raise JPY 2 billion to invest in IT-related start-ups, primarily in Japan, but also looking opportunities in US and abroad. It will make JPY 5 million per investment, the maximum size is JPY 100 million.

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