AVCJ
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Relative strengths

Is private equity meeting the needs of Asia's emerging family offices? Page 7

EDITOR'S VIEWPOINT

What would a revival in India PE-backed IPOs do for market sentiment?

Page 3

NEWS

Affinity, Blackstone, CIC, Everstone, GGV, IFC, Kendall Court, Rocket Internet, Shaw Kwei, Southern Capital

Page 4

DEAL OF THE WEEK

VCs support Ayannah's Philippines mobile payment solution

Page 12

SCPE targets agriculture with second Vietnam deal in three weeks

Page 12

Google Capital opts for cloud technology in debut China investment

Page 13

DEAL OF THE WEEK

3i's medical matters

PE firm sees 2.9x return on LHi investment Page 13

PORTFOLIO

Exploring the deep

KrisEnergy's SE Asia oil and gas strategy Page 14

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EDITOR'S VIEWPOINT

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India's IPO pipeline

INDIAN TEST PREPARATION SERVICES provider CL Educate filed for an IPO last week. Just over half of the offering will comprise shares held by the promoter and private equity backer Gaja Capital. It should come as welcome respite for the GP – which first invested in CL Educate seven years ago – and provide much needed liquidity for its LPs.

With the S&P BSE Sensex Index up nearly 25% year-to-date, Gaja is one of a number of PE players looking to take portfolio companies public. Of the 13 draft offer documents that have been filed with the Securities and Exchange Board of India (SEBI) since April, seven have private equity investors, some of whom have been holding stakes for as long as Gaja has in CL Educate. One of these, GMR Energy, has already shelved its offering..

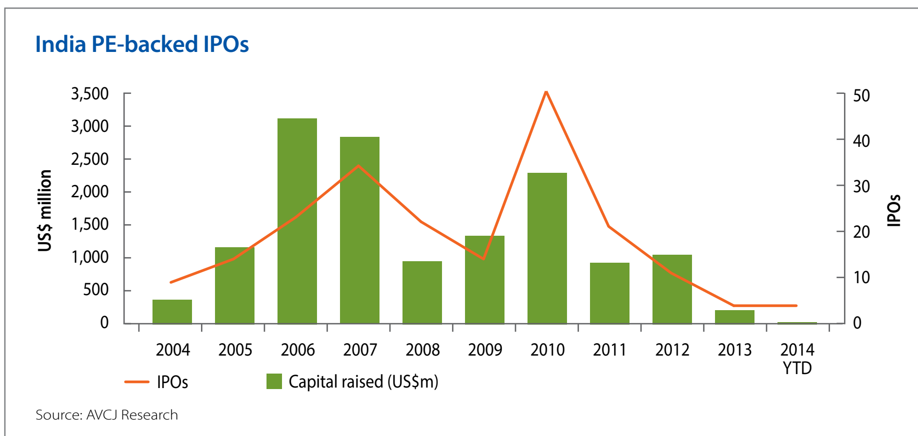
AVCJ Research has records of two successful PE-backed IPOs this year. Snowman Logistics, a cold chain unit of Gateway Distriparks, raised $33 million in late August. Norwest Venture Partners and International Finance Corporation saw their holdings become liquid but neither sold any shares in the IPO. Sharda CropChem earlier raised $58 million, allowing Henderson Equity Partners to exit its six-year-old investment.

The weak climate for PE-backed IPOs in India in recent years feeds into the broader disappointing exits picture. In 2010, a total of 50 offerings raised proceeds of $2.3 billion, but it has been largely downhill ever since, with four IPOs generating just $214 million last year.

Overall PE exits stand at $3 billion so far in 2014, trailing each of the previous two years when the 12-month total surpassed $5 billion. These are the highest totals on record – and public market exits of previously listed companies contributed a sizeable amount – but they remain disappointing given the $36.7 billion that was deployed in the country between 2006 and 2008, which should be ripe for realization.

It remains to be seen if an influx of IPOs can help redress the balance. But any success stories that can be held up as evidence of new Prime Minister Nahenrda Modi reviving India's flat-lining economy would be succor to private equity firms on the fundraising trail. AVCJ's calculations indicate that a handful of high-profile GPs are either in the market or expected to return with new funds over the next year. LPs will scrutinize past exits, of any variety, closely.

Tim Burroughs
Managing Editor
Asian Venture Capital Journal



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NEWS

GLOBAL

Rocket Internet shares down 13% on debut

German internet incubator and investor Rocket Internet saw its shares close down 13% on the first day of trading on the Frankfurt Stock Exchange following a EUR1.6 billion ($2 billion) IPO. The firm sold 37.9 million new shares, including 4.9 million from an over-allotment option because of strong demand, at EUR42.50. The issue was at least 10 times over-subscribed.

AUSTRALASIA

NZ regulator targets Archer group over Abano deal

A consortium of investors including Archer Capital is subject to a civil action launched by New Zealand's Financial Markets Authority (FMA) over an unsuccessful bid for Abano Healthcare Group. It is alleged that Archer and Healthcare Industry Limited – a vehicle controlled by Abano director Peter Hutson who owned 14% of Abano – had a pre-existing agreement to target the company ahead of the date when they filed substantial shareholder notices.

GREATER CHINA

CIC in $313m partial exit from Noble Group

China Investment Corporation (CIC) has made a partial exit from Singapore-listed agriculture and energy supply chain manager Noble Group, generating proceeds of S$396 milion ($310.6 million). The sovereign wealth fund sold 300 million shares at S$1.32 apiece, reducing its holding in Noble from 13.8% to 9.4%. Noble said the partial exit was part of CIC's overall rebalancing exercise.

VC-backed car rental firm eHi files for US IPO

EHi Car Services, a Shanghai-based car rental company backed by a string of VC investors, has filed for an IPO on the New York Stock Exchange. The size of the offering and pricing terms were not disclosed. Ctrip International owns 23% of the company, while CDH Ventures has 12.9%. Qiming Venture Partners and Goldman Sachs have 11.9% and 10.7%, respectively. Ignition Partners holds 9.1%.

Affinity secures debut Malaysia deal

Affinity Equity Partners has secured its debut Malaysia investment after agreeing to buy a significant minority stake in poultry producer Leong Hup International in a deal that values the company at around $600 million excluding debt.

Leong Hup is the largest integrated poultry producer in Malaysia. The company started out as a backyard farm in the 1960s and incorporated in 1979. Its operations cover the entire supply

chain, from producing feed and parent stock and rearing day-old chicks through to contract farming, slaughtering and processing meat. Leong Hup also supplies feed, parent stock and day-old chicks to smaller-scale independent farmers. The company is also the market-leading chicken supplier in Singapore and ranks second and third respectively in Vietnam and Indonesia on the upstream side. A processed foods division was launched in Indonesia last year.

The Malaysian business, Leong Hup Holdings, listed on the Bursa Malaysia in 1990 but was taken private by the family owners in a process that ended in early 2012 because the stock was illiquid. The deal was worth around MYR427 million ($130.5 million). The last quarterly financials posted by the company were for the final quarter of 2011. Revenue came to MYR440.1 million and net profit was MYR30 million.

Affinity is also expected to support expansion within Southeast Asia, which will start with the deepening of the company's presence in Vietnam and Indonesia as well as consolidating its position in Malaysia.

Club Med board endorses new Fosun buyout offer

The board of directors of Club Méditerranée (Club Med), the France-based vacation resorts operator, unanimously recommended that shareholders should accept an improved takeover bid from Chinese conglomerate Fosun International and its partners. Last month, Fosun and Ardian Private Equity reactivated their interest in Club Med, forming a new consortium that includes JD Capital and Hong Kong Utour International Travel Service.

Blackstone-owned Hilton sells NY's Waldorf Astoria

China's Anbang Insurance Group has agreed to buy the Waldorf Astoria hotel in New York from Hilton Worldwide Holdings, a portfolio company of The Blackstone Group, for $1.95 billion. The property, which has been in its current location on Manhattan's Park Avenue since 1931, will continue to be managed by Hilton. The hotel will also undergo a major renovation.

JD Capital closes $200m second US dollar fund

Chinese GP JD Capital has achieved its target of a $200 million final close on its second US dollar-denominated fund. Jiuding China Growth Fund II, which was launched in January, attracted investors including sovereign wealth funds and insurance companies from North America and Asia. Disclosed investors include Allianz Group, Allstate Insurance, Partners Group and family office BMW.

GGV, Tencent invest $13m in tracking device maker

Tile, a US start-up that makes devices used to track lost items, has raised $13 million in funding from China-based investors. The funding comprises a $9.5 million Series A round led by GGV Capital and a $3.5 million seed round led by Chinese internet company Tencent Holdings.

NORTH ASIA

Marunouchi exits Japan supermarket to Lawson

Marunouchi Capital - the private equity arm of Mitsubishi Corp - has exited Japanese high-end supermarket chain Seijo Ishii to convenience store operator Lawson for JPY55 billion ($501 million) including debt. Established in 1927, Yokohama-based Seijo Ishii has 120 outlets, mainly in the Tokyo metropolitan area and in the Kansai region.

Permira in talks to sell Arysta to rival firm

Arysta LifeScience, the Japanese agricultural chemicals maker owned by Permira that last

month filed for a US IPO, is said to be in talks with Platform Specialty Products over a potential acquisition. The US-headquartered Platform Specialty could acquire its rival for a reported $3.5 billion including debt.

Jafco commits $4.6m in footwear site Locondo

Jafco has invested JPY500 million ($4.6 million) in Japanese footwear e-commerce start-up Locondo in a Series C round of funding. Locondo's site launched in 2011 after the start-up received JPY76 million in seed backing from Rocket Internet in late 2010. The new funding will be used to fulfill the company's logistics needs and relocate its headquarters to Shibuya, Tokyo.

SOUTH ASIA

Vista Equity acquires TIBCO in $4.3b take-private

Tech-focused GP Vista Equity Partners has agreed to buy TIBCO Software, the US-listed business software provider founded by Indian entrepreneur Vivek Ranadivé, in a deal worth $4.3 billion including debt. Vista will acquire all outstanding TIBCO common stock for $24 per share in cash, a 26.3% premium to the closing price the day before news regarding a potential deal went public.

IFC to invest $100m in India's Bilt Paper

International Finance Corporation (IFC) has agreed to acquire a 14.29% stake in Bilt Paper, a subsidiary of Indian paper manufacturer Ballarpur Industries, for $100 million. The deal values Bilt Paper at $600 million. The firm, which had tried to go public in London three years ago, is still looking at listing its shares overseas.

Blackstone, Embassy to buy Four Seasons Bangalore

The Blackstone Group and Indian developer Embassy Property Developments have acquired a 73% stake in Bangalore-based project comprising the Four Seasons Hotel and a luxury home development from Goldman Sachs. The deal has been valued at around $102 million.

Matrix India backs online food-ordering platform

Matrix Partners India has provided a Series A round of funding for Alchemy Web Private, operator of online food-ordering platform LimeTray. The size of the commitment was not disclosed. The company has previously received backing from a string of angel investors. These include Umang Kumar, CEO of Gaadi.com, Ankur Warikoo, Asia Pacific head at Groupon, and Ankur Singla, CEO of Akosha. LimeTray is a back-end technology provider to restaurants, enabling them to take orders online, arrange delivery, and keep a handle on point of sales.

India's Everstone targets $650m for Fund III

The International Finance Corporation (IFC) has proposed investing up to $50 million in India-focused GP Everstone Capital's third fund, which has a target size of $650 million. The fund, Everstone Capital Partners III, has a hard cap of $700 million. Its predecessor closed at $580 million in 2010, with LPs including HarbourVest Partners, Denmark-based Industriens Pensionsforsikring, and Maryland State Retirement and Pension System, according to AVCJ Research. The first fund closed at $425 million in 2006.

The new fund will target companies with significant operations in the Indian sub-continent and cater to or benefit from Indian domestic consumption and infrastructure development. This reflects the fact that Everstone's strategy to back India-based companies as well as those further afield.

Notably, the private equity firm acquired Singapore-listed bar and restaurant operator Harry's Holdings and a majority stake in the Indonesia franchise of Domino's Pizza. Both assets also reflect Everstone's appetite for food and beverage investments. Last year it entered into a joint venture with Burger King Worldwide to bring hamburger chain to India, while a number of other food and beverage interests - including Noodle Bar, Bombay Blue and Copper Chimney - are held under the Cuisine Asia umbrella.

Verlinvest, a vehicle owned by the founding families of Anheuser-Busch InBev, is said to have acquired a minority stake in Cuisine Asia in 2012. It also has an interest in F&B Asia Ventures, the holding company for Harry's and India and Duck & Rice, a casual dining chain in India and Southeast Asia.

SOUTHEAST ASIA

Kendall Court exits broadband provider

Kendall Court Capital Partners has exited Packet One Networks – a Malaysian broadband provider heavily involved in 4G telecommunications technology – as Telekom Malaysia (TM) bought a controlling stake in the company. The deal, announced in March, saw TM acquire a 55% stake in Packet One for MYR350 million ($108 million). The telecom giant now owns 55.3%, with existing investors Green Packet and SK Telecom holding 31.1% and 13.6%, respectively.

Southern Capital agrees engineering carve-out

Southern Capital Group has agreed to acquire a majority stake in United Engineers' Singapore-listed engineering and construction division for S$230.2 million ($180 million) in cash. The mid-market buyout firm will buy approximately 184.1 million shares in the division - known as UE E&C – from United Engineers at S$1.25 apiece. This represents a 68.2% stake in UE E&C.

Shaw Kwei invests $17m in marine logistics firm

Greater China and Southeast Asia-focused private equity firm Shaw Kwei & Partners has paid $17 million for a 60% stake in Singapore marine logistics firm Amos International. The company will use the new funding to invest in a 150,000-square-foot distribution center as well as for expansion of its repair and maintenance workshop. The private equity firm plans to grow the business both organically and through strategic acquisitions in the future.

Jungle Ventures commits $1.6m to Thai fashion site

Jungle Ventures has led a $1.6 million pre-Series A round for Pomelo, a Thailand-based online retailer that sells Korean fashion. Other investors include Skype co-founder Toivo Annus, 500 Startups, Fenox Ventures, Queens Bridge Ventures and an unnamed hedge fund. The latest round brings to total amount capital raised by the company so far to $2 million.

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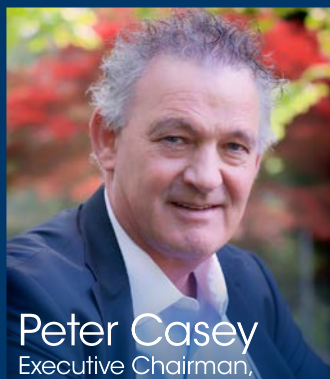

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Family ties

As wealth in Asia has grown, so has the number of family offices. As these investors become more institutionalized, what can they do for private equity and what can private equity do for them? t

THE GROWTH OF ASIA'S HIGH NET WORTH individuals (HNWIs) in recent years has been truly staggering. Between 2007 and 2012, the number of individuals who qualify for this elite acronym grew by 31% while their wealth swelled by 27%. The same figures for rest of the world pale by comparison, with increases of just 9% and 14%, respectively.

As of 2013, the region's HNWIs – defined as individuals with investable assets of more than $1 million – saw commanded $14.2 trillion, up 18.2% year-on-year, according to a report by Capgemini and RBC Wealth Management. They were within touching distance of the North American total of $14.8 trillion, the gap seeming to narrow every time a new research is published.

"Homegrown wealth is exploding," says Michael Prahl, executive director at INSEAD's Global Private Equity Initiative in Singapore. "Many families and HNWIs have reached a certain amount of assets, some through selling all or part of their operating business, and they have to think about how they are going to manage their wealth."

Capgemini and RBC note that 41% of HNWIs in Asia ex-Japan describe their wealth management needs as complex, compared to about 21% for the rest of the world. Driven by forces such as cross-border investment, tax planning and age – a Chinese entrepreneur who made good in the 1990s might now be in or approaching his 60s and considering his financial legacy – the wealth management needs of this group have evolved. And this has spurred demand for professional advice in the form of family offices.

Many of these family offices are also becoming more sophisticated in the way they invest and are increasingly active in private equity – though their style of investing differs greatly from that of traditional LPs. The influence of family offices on the asset class in Asia will grow time, providing an important source of capital, provided GPs they can manage relationships well.

Evolving strategies

There is no official data on the number of family offices in the region but a survey carried out by UBS and Campden Wealth last year suggests there are between 100 and 120 single family offices in region, based on a mix quantitative research and anecdotal evidence. More significantly, the same research found that interest in private equity among this group has indeed grown – with venture capital and private equity allocation reaching 15% last year, compared to just over 4% in 2012. By contrast, allocations to public equities fell over the same period from 33.2% to 24%.

Furthermore , research on the instutionalization of Asian family offices, due to be published by INSEAD later this month, suggests that Asian single family offices have also being allocating more to private equity strategies – including direct investment, co-investment and LP investments - than the global family office average, at 17% and 10% respectively.

It should be stressed that, despite the levels of wealth in the region, the family office model in Asia is still in its infancy. But the model is increasingly being embraced.

"Because there is a lot of old and new wealth in Asia now, there is both a need and a desire for this industry to develop," says Vincent Ng, a partner with placement agent Atlantic Pacific Capital. "Historically a lot of these groups have managed their own money but as generational transfers occur they are relying on advisors to manage their capital."

Until now, many of wealthiest people in Asia have been first generation entrepreneurs connected to the original source of wealth. Therefore interest in setting up a family office has not been viewed as a means of generating wealth but more a place to park surplus cash. As a result, family offices have engaged with private equity more as means of supporting the founder's operating business.

"Family offices have always looked at private equity as an opportunity where there has been a synergy with their own business activities," explains Noor Quek, founder and CEO of family office advisory NQ International. "They particularly look for private equity situations where the counterparty can offer new markets or new skills."

In this context, it comes as no surprise that direct investment has made up the bulk of private equity activity by Asia's family offices, with fund commitments contributing just 4% of the average family's portfolio, according to the UBS-Campden report. This suits the typically

Asian family offices' average asset allocation

Source: UBS/Campden Wealth Asia-Pacific Family Office Survey 2012-2013

> "Family offices have always looked at private equity as an opportunity where they has been synergy with their own business activities"
>
> – Noor Quek

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Situations vacant: Hiring problems

Talent retention is a key consideration for family offices in Asia as the pace of wealth growth outstrips the ready supply of investment professionals capable of looking after these riches.

Respondents to a survey conducted last year in the region by UBS and Campden Wealth identified hiring and keeping talent as one of the four biggest challenges facing family offices today. The shortage is expected to persist for at least the next three years.

"The issue of retaining talent and building trust with an outside manager can be difficult for many new family offices," says Vincent Ng, partner at placement agent Atlantic Pacific Capital. "This is particularly important when you consider that family offices do not normally have a large budget and tend to rely on former bankers, consultants and accountants."

There are ways to address the shortage. In a minority of cases a family member has the appropriate background and motivation to assume responsibility for the portfolio. Another solution is to combine the talents of a family member with input from the management of associated operating businesses. However, it is difficult to avoid relying on external professionals in some capacity.

Michael Prahl, executive director at INSEAD's Global Private Equity Initiative in Singapore, adds that the typical candidate is going to come from institutional platform where processes are relatively structured and measurable – in other words, very different from a family office. "In a family office environment which is very fluid, where principals tend to get more hands-on involved, personal chemistry and clear rules of engagement are more important," he says.

Needless to say, those family offices that most closely resemble institutional operations tend to encounter the fewest problems in recruiting good people.

"Generally speaking, if you are at an institutionalized family office with a sense for how people should be managed and incentivized – and all those structural nuances are in firm already – that is the best family office to work for," says Castling's Kim. "Where a family office is not structured effectively that is when you have frictions and the person you hire might not be a good fit."

entrepreneurial nature of many wealthy families. INSEAD's Prahl observes that family offices are interested in making direct PE investments because they have a certain appetite for risk, and this also influences how they make fund commitments.

"The absolute amount of money they can invest is of course lower than that of institutional investors, such as pension funds," says Prahl. "But Asian family offices are often more willing to do things like support a first-time fund or back a GP with a unique strategy, thereby helping to create the initial momentum in fundraising."

The issue is whether family offices are likely to become more active fund investors as their focus shifts from strategic investment to seeking alpha. Atlantic Pacific's Ng makes the point that this is the case with large, well-established groups and multi-family offices, but it is still rare among single family offices. It is a view endorsed by Steve Kim, CEO with Seoul-based advisor Castling Investment Group.

"It is a like a barbell. On one end you have the sophisticated guys who are very proactive in terms of constructing a portfolio and have a very top-down structure," he says. "On the other end are guys with lots of cash and they just are investing in real estate, bonds and things they know or perceive to be safe. They are either doing it in a meaningful way or they are just not doing it at all."

The sophisticated family offices are distinct from a typical institutional LP in a number of aspects. First, they are more conservative regarding fees and less likely to push for concessions than a large pension fund or sovereign wealth fund. Second, they have a greater appetite for risk and hence expect more co-investment opportunities.

Liquidity issues

Yet at the same time, many family offices find the illiquid nature of private equity difficult to accept and they may be uncomfortable with the lack of direct involvement in portfolio companies. Additionally, those that still hold operating assets often try to benchmark private equity performance against the operating assets.

"Even if they there are pitched acceptable returns, say 20% net IRR over a 4-5 year horizon, they might compare that with the 30%-plus return they are seeing in their operating business," says INSEAD's Prahl. "It is different from Western markets where family offices have on the whole shifted into a capital preservation mode, i.e. inflation plus. In Asia, expectations are higher and people struggle with the illiquidity of the asset class."

He adds that many family offices in Asia also first started investing in hedge funds, which have a shorter life span. Co-investment is one way to ameliorate the j-curve but it can only complement the established fund model.

However, some maintain that limited appetite for illiquid investments is not all it seems. The real sticking point is transparency and a reluctance to tie up capital for the long-term where there is a degree of uncertainty as to how it will be used. As a result, Citi Private Bank has spent the last three years on focusing single-asset co-investment and club structures, where the investors have a clear idea of what they are getting themselves into.

"What we've found is that, if a client was willing to put 100% of illiquid dollars into a blind pool fund pre-2007, they are still prepared to put some money into this area but there are two criteria," Roger Bacon, head of managed Investments at Citi Private Bank, previously told AVCJ. "First, it must be a best of breed name. Second, they must have a clear view that independent due diligence has been done on the specific opportunity or specific manager before they pull the trigger."

It also underscores the importance family offices typically place on having some influence on the investment process. And this, in turn, explains why many family offices are willing to back smaller or even first-time funds, where there is the opportunity to participate as an anchor investor and wield more influence, as opposed to participating as a small player in a much larger vehicle.

"Some families are interested in setting up their own investment vehicles, which will gives them a greater say on the board but then they have to write a sizeable check. The alternative is to anchor a fund – for example put $50 million into a $150 million fundraise – that way they have a say, a share in the economics and a seat on the investment committee," says INSEAD's Prahl.

Another issue for family offices is getting a clear view understanding of the risks associated with the asset class. Castling Group's Kim observes that a lot of this is to do with risk perception: when an investor has a strong grasp of an investment or an asset class, the risk factor is reduced, while the converse is also true. For example, a family office might invest in a single building in New York rather than a diversified portfolio operated by a manager with a strong

track record because it is easier to directly monitor the single building.

"Many view PE as being riskier than that, so many are not investing as much as they could if they understood the asset class a bit better," Kim says.

This observation is echoed by the Sunil Dalal who runs the family office venture capital and private equity investments for India's Unidel Group. Private equity comprises 15% of the portfolio but issues over control have so far kept the family from investing in funds.

"Since we have the opportunity to invest in our own businesses we have not found it very compelling to invest in these funds," he says. "The way we control risk is by ownership, which means we have controlling stakes in all our businesses. That is not to say things don't go badly in our portfolio companies but when they do, we can do something about it."

Profitable partnerships

On the flipside, family offices can benefit from building a relationship with a GP through fund commitments because of the potential co-investments that might come with it. However, relationships can go both ways. As much as a GP can present family offices new opportunities, family offices might also be able to offer GPs greater access to deals and networks within their own geography or area of expertise. This would include investments arising from associated operating businesses.

A GP like Samena Capital, for example, has arguably taken this idea to its logical extremity by relying on its LPs – which include several single family offices and HNWIs – to generate a significant portion of deal flow through their networks. Indeed, even when principals do come up with investment propositions, the LPs are an important port of call when assessing the credibility of the business and its partners. In the case of Samena, the LPs are also part owners of the GP.

As much as these relationships can be fruitful and advantageous, dealing with a family-run institution also has the potential to bring added challenges and layers of complexity. It is a difficult balance to strike but a natural equilibrium may emerge in Asia as the more-established family offices grow in size and some become more institutionalized, perhaps morphing into multi-family offices. Of course, newer players will continue to push through, so relationship management will remain an issue on some level.

> **"Many families and HNWIs have reached a certain amount of assets, some through selling all or part of their operating business, and they have to think about how they are going to manage their wealth"**
>
> – Michael Prahl

A seasoned GP capable of constructing a balanced LP base can work with family offices as it sees fit – interestingly, a number of China VC firms continue to reserve allocations for HNWIs in order to cultivate entrepreneur networks. For smaller funds seeking new sources of capital in an increasingly bifurcated Asian PE market in which institutional capital is flooding to big brand names, family offices may be essential.

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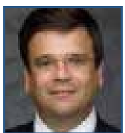

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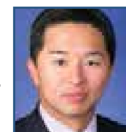

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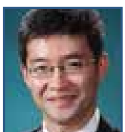

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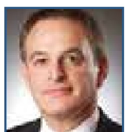

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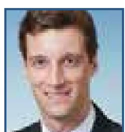

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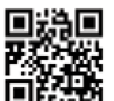

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Ayannah banks on the unbanked

EXPLAINING WHY CROSS-BORDER remittances into the Philippines are not his core business, Mikko Perez points to Hong Kong's Central district on a Sunday, when the domestic helpers are out in force. "It's so cut throat – we are talking basis points of spread rather than percentage points of spread," he explains. "We decided to stay away."

Inbound remittances from the estimated 12 million Filipinos working overseas are worth $25 billion a year and Ayannah, the digital payments business founded by Perez, plays a role in the market. But this role has changed. Perez sees Ayannah's Sendah service as more of an e-commerce provider, allowing the diaspora to buy insurance products back home. Sendah will likely enter new markets through partnerships and licensing arrangements.

Perez also has his eye on a much bigger market – the estimated $60 billion in domestic remittances. Ayannah entered this territory in 2010 with the launch of Sendah Direct, which initially focused on mobile phone charge cards. "We started with that because we wanted to build up as many points of sale as possible," he says. "Mobile airtime is the most liquid and available form of stored value."

It was a means to an end. Perez describes his vision as two concentric circles: the outer circle is a network of airtime resellers and distributors of micro-insurance products; the inner circle is a network of agents doing remote payments. The firm already has over 7,000 distributors and agents serving 9 million customers, mainly on the airtime side.

Money: Going mobile

While airtime will deliver revenue, the profit margin is just 2-4%. This compares to 30% for insurance and at least 20% for remote payments. Ayannah is also getting into mobile gaming credits.

Up to last week, the company has raised a total of $5 million since inception, including two institutional rounds of $1 million apiece. Siemer Ventures and Golden Gate Ventures provided the first round and were joined by IMJ Investment Partners for the second. There has since been a follow-in investment of $1.8 million provided by investors including Gree Ventures, Beenos Asia and Wavemaker Labs, as well as Golden Gate and IMJ. The new capital will mainly be used for marketing purposes.

"Our investment thesis for Southeast Asia is to focus on companies that are working with consumers or in the payments space. With Ayanna targeting alternative digital payments as well as remittance that really hit our sweet spot," says Justin Hall, an associate at Golden Gate.

Sendah Direct has established relationships with several domestic retailers and it also working with the dominant players in non-digital remittances. "It is like we have partnered with HSBC and Standard Chartered and we are increasing their reach so you don't have to go through their branches to make transactions," Perez says. "I am talking about non-bank financial services providers, the ones that are available for the base of the pyramid."

SCPE ready to bet big on Vietnam

PRIVATE EQUITY INVESTORS HAVE committed an annual average of $364 million to Vietnam-based companies over the past 10 years. In the space of three weeks, Standard Chartered Private Equity (SCPE) alone has deployed over one third of this total.

The acquisition of significant minority interests in restaurant operator Golden Gate and agribusiness player An Giang Plant Protection JPS (AGPPS) for $35 million and $90 million, respectively, represent the captive private equity unit's first investments in the country. It is comfortable doing more.

"On a macro level, there are favourable economic indicators and demographic tailwinds that have created an environment of significant, untapped growth in a number of sectors," says Bert Kwan, SCPE's head of Southeast Asia excluding Indonesia. "On a micro level, we are finding fundamentally attractive opportunities to back best-in-class management teams in flagship enterprises and emerging champions."

Both assets have previous experience of PE. Mekong Capital made a full exit from Golden Gate through SCPE's investment, generating a net multiple of 9.1x and an IRR of 45.1%. Mekong also invested in AGPPS in 2008, although the PE firm is now primarily focused on the consumer sector. A second investor, Deutsche Asset Management, exited its interest in AGPPS on SCPE's entry, generating an IRR of 19.7% and a multiple of 1.7x.

AGPPS' core business is producing crop protection chemicals, where it has a 25% market share. Since 2010, the company has aggressively expanded into the rice processing and trade business, with a view to becoming an integrated agricultural services provider. It has a nationwide distribution network of 25 branches and works with 500 large wholesale agents.

Crop protection: AGPPS angle

In addition, AGPPS runs Farmer's Friends, a support service that provides education and technical assistance. Revenue came to $354 million last year, with net profit has grown at an annual rate of 28% between 2008 and 2013.

With the latest round of funding, SCPE expects to work with company management to bolster overall profitability of this value chain. "With its position as the market leader in crop protection and inputs, AGPPS occupies a unique position within the agricultural value chain in Vietnam – a country in which agriculture employs nearly half the population and is responsible for nearly one-fifth of gross domestic product," Kwan says.

He sees AGPPS as an attractive opportunity to earn an attractive risk-adjusted return, with an expected holding period of 4-5 years. The company could soon be joined in the SCPE portfolio by other Vietnam investments.

"Standard Chartered has been on the ground in Vietnam for a long time," Kwan adds. "It only makes sense that we, as Standard Charterer's private equity arm, leverage the knowledge and experience that stems from this privileged institutional heritage."

3i completes med-tech upscale job

WHEN JOHN THOMSON, HEAD OF 3I Group's Southeast Asia business, met Singaporean entrepreneur Jay Pok in the mid-2000s, he was on the lookout for a medical technology investment. But Pok's company, medical cable maker LHi Technology, though impressive, was too small.

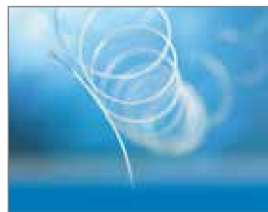
"We saw a business in its infancy with just one customer and purely focused on manufacturing patient monitoring cables," Thomson recalls.

3i passed on the opportunity and Baring Private Equity Asia acquired a majority stake in 2006. Two years on, Thomson found a different LHi. The original customer was still there and accounted for 50% of revenue, but Pok had brought in others. He had also hit his financial targets, with turnover reaching $30 million.

"It was an unusual scenario of an entrepreneur doing everything he said he would do," Thomson says. 3i duly acquired a 64% stake in the business for $58 million, taking out Baring Asia. Pok and members of the management team owned the rest of the company.

There were two immediate priorities: reduce the bias towards patient monitoring equipment and get into more technically challenging products; and deepen the management talent pool. Recruits included Alberto Bautista, formerly of Baxter International, who came in as chairman.

Global forces were also working in 3Hi's favor. While the healthcare market was sizeable and growing, medical device makers were under pressure to shift production of less sophisticated items to lower-cost manufacturing centers. It no longer made sense for the German company responsible for video-assisted surgical solutions to produce the electric cables for these devices as well. The global financial crisis exacerbated this pressure.


LHi: Cables and more

During this period, LHi made the transition from reusable to disposable products as hospitals, wary of the risks presented by viruses such as the MRSA superbug, clamped down on potential cross-contamination. The firm also developed its product base. "Once LHi had proved itself with the simpler products, it was in a position to say, 'Why can't we do electrosurgical products and video products as well?'" Thomson explains. "The skill sets aren't that different."

These two areas now make up part of LHi's product portfolio, although patient monitoring still accounts for the lion's share of revenue. Under the PE firm's ownership, EBITDA almost doubled and revenues tripled from $31 million in 2006 to over $100 million.

3i quietly reached out to a number of strategic players that were a good fit for LHi and ran a limited auction process. US-based Carlisle Companies acquired the firm for an enterprise valuation of around $195 million, generating a 2.9x money multiple for the PE firm.

"LHi was the only significant pure-play Asia-based medical cable manufacturer," Thomson adds. "The value was in the relationships it has established with a plethora of medical technology companies."

Google Capital in debut China VC investment

GOOGLE'S DISCOMFORT AT THE GROWING level of censorship imposed on US internet players by the Chinese authorities after 2008 saw the company withdraw from the M&A scene. There were no deals at all until last week, when Google Capital – a $300 million growth-stage VC fund launched earlier this year – made its first foray into China.

The lucky recipient was Suzhou-based optical transceiver manufacturer InnoLight Technology. Google Capital co-led a $38 million Series C round for the company alongside Lightspeed China Partners.

"We [Google and Lightspeed] are very interested in data center technology companies because cloud computing is a big trend globally and it creates demand for new data center technologies," says James Mi, managing director at Lightspeed China. Between 2003 and 2008 Mi served as Google's head of products in Asia and director of corporate development in China.

InnoLight was founded in 2008 and previously raised about $20 million from Suzhou Ventures and Acorn Ventures. The company makes high-speed optical transceivers used by computer servers. These devices are a critical component to data centers in that they allow servers to communicate with each other by converting electrical signals to optical signals - for transport through fiber-optic cables - and back again on reaching the destination.

According to Mi, more than half of InnoLight's revenue is generated from the US, with customers including top cloud computing and technology companies. That was how Google first identified the firm and it subsequently invited Lightspeed to join the round.

Google: Looking to the cloud

"There is the perception that Chinese firms often copies US technology, but InnoLight is an example of a Chinese company that has developed world-class technologies and made it successful globally," Mi explains.

In addition to strengthening the company in overseas markets, Lightspeed will focus on helping InnoLight develop with China, through selling components to cloud computing vendors as well as providing technology solutions to 4G mobile network operators. As the biggest cloud computing company in the world, Google possesses the resources and expertise to help InnoLight upgrade its technology.

"The adoption of cutting-edge technology by domestic cloud service providers such as Baidu and Alibaba still lags behind US players, but they are catching up. We are helping the company to penetrate this market," Mi says. "Meanwhile, InnoLight is a significant player in China's mobile 4G network build out, which gives it a more diverse customer base."

The US is said to account for more than 60% of the global cloud-computing industry, with a China a distant player. Of the 40 Chinese internet companies listed in the US, few are in enterprise technology. However, as cloud computing gathers pace in the country, Lightspeed thinks InnoLight is well positioned to join this number.

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Local knowledge

In backing oil and gas start-up KrisEnergy, First Reserve put its faith in a rare commodity in Southeast Asia – an independent team that knows where the plumb assets are and how to access them

DESPITE YEARS OF EFFORT, CAMBODIA has yet to become an oil-producing nation. The first production-sharing contracts were awarded to foreign firms in the late 1990s, but only Chevron stuck it out, finding oil on its block in 2004 and declaring a commercial discovery six years later. Progress then stumbled, not helped by a tax dispute, and this led to KrisEnergy being drafted in a bid to turn around the situation.

The oil and gas exploration and production (E&P) player took a 25% interest in the block in 2010, and a number of successful exploration wells were drilled. This month it completed the acquisition of the remainder of Chevron's 55% holding for $65 million. The company will now see if it can overcome the various regulatory, geological and logistical obstacles and bring an estimated 650-700 million barrels of oil equivalent (mmboe) to commercialization.

Chevron first brought in KrisEnergy because it knew the team and its capabilities. In their previous incarnation as Pearl Energy, the founders had taken a challenging asset – the Jasmine field in the Gulf of Thailand – into production. Less than 17 months after the company acquired Jasmine, oil was being generated; within three years cumulative output had reached 17 mmboe. Chevron was looking for a repeat performance.

The situation also offers an insight into how KrisEnergy has built a portfolio of 215.2 mmboe – including proven and probable reserves (2P) and best estimates of contingent resources (2C) – as of mid-2014.

"We never succeed in competitive tenders because we refuse to pay top dollar. But we don't need to compete because we've been in the region for so long and relationships are everything in Southeast Asia," says Richard Lorentz, co-founder and business development director at KrisEnergy. "We have contacts, relationships and friends across the region and that's how we source deals."

Proven operator

First Reserve, which backed KrisEnergy as a start-up in 2009, is already sitting on handsome returns from its investment.

The PE firm committed $500 million and ended up deploying $300 million, taking a stake of around 98%. Keppel Corporation acquired a 20% interest in KrisEnergy for $115 million in July 2012 and was a cornerstone investor in the company's S$270.8 million ($213 million) IPO in Singapore a year later. Just before the offering, Keppel exercised an option on First Reserve-owned shares to increase its holding to 36%. If this was done at close to the IPO price of S$1.10 per share, the PE firm would have taken about $140 million off the table. First Reserve still holds 45.2%, currently worth over $380 million.

The deal-sourcing ability and strong performance confirm the positive vibes that came out of the due diligence process.

"First Reserve has a history of working with management teams with a proven track record," says Will Honeybourne, managing director at First Reserve and non-executive chairman at KrisEnergy. "We saw the team had the technical, operational and commercial skills aligned with the nature of the opportunity. They also have incredible depth of knowledge and experience in the region. They are like encyclopedias; they know everything that has been done by everyone, everywhere. With our global culture and specialized industry knowledge, it was a great pairing."

Notably, the KrisEnergy team had also proved it could operate as an independent. The founders, Keith Cameron, Chris Gibson-Robinson and Lorentz, each had more than two decades of industry experience in Southeast Asia. They set up on their own in 1999, incorporated as Pearl Energy in 2003 and won backing from 3i. Shortly after listing in Singapore in 2005, the company was acquired by Aabar and then sold on to Mubadala for $833 million in 2008. Both entities are controlled by the Abu Dhabi government.

First Reserve had looked at Pearl ahead of the Aabar transaction. "We made it clear to the team that if they wanted to do this again we would be extremely interested in talking to them," Honeybourne adds, noting that the KrisEnergy investment was signed within five months of the team making contact.

First Reserve had long recognized the potential for an oil and gas E&P start-up in Southeast Asia. The region as a whole is resource-hungry, populated with fast-growing economies, yet offshore hydrocarbon basins remain relatively underdeveloped; certain areas haven't been explored for a long time, so they haven't benefited from the latest technologies capable of reaching previously inaccessible reserves. Southeast Asia is also seen as increasingly politically tenable, with governments doing more to ensure consistent application of the rules governing foreign investment.

The challenge remains finding the right team. First Reserve looked at a number of different operators without being convinced any of them. For example, some were trying to do Southeast Asia from bases in Europe and the PE firm felt they lacked an affinity with the region. By contrast, the KrisEnergy team was well known within the industry in Southeast Asia, as well as among government and regulatory stakeholders.

> "They are like encyclopedias; they know everything that has been done by everyone, everywhere"
> – Will Honeybourne

Other management teams have succeeded in getting PE backing, but they are still few in number. The investors may be partly responsible for this. While First Reserve has been an early sponsor of E&P start-ups in Brazil and Romania, most private equity players focus on North America. It could therefore be argued that the start-up thesis has yet to be fully proven in Southeast Asia, although an increasing number of GPs are looking for opportunities in the region.

Lorentz adds that the talent pool just isn't very deep. "When oil majors come into the region they normally cycle their expats out in 3-5 year periods," he explains. "So someone would have to come in, fall in love with Southeast Asia and its oil and gas potential, resign and then come back in as an independent. That's a difficult proposition."

Issues of scale

While the KrisEnergy team remains true to the business model that worked for them at

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Pearl, they are now operating on a much larger scale. With First Reserve's financial backing, the company opened for business with more than two dozen employees compared to just the three founders and a skeleton support staff at Pearl. This allowed it to begin work quickly on the pipeline of investments.

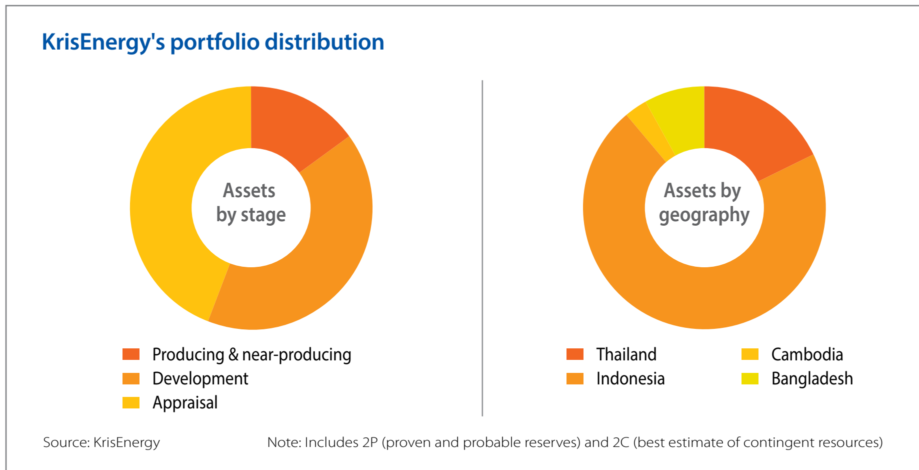
The PE investor has also contributed significantly on the corporate governance side.

As of October 2014, the vast majority of KrisEnergy's 2P and 2C assets were in gas. Broken down by project stage, though, 41% of the portfolio was at the development stage, 44% under appraisal and 15% in production or close to it. The idea is that KrisEnergy will generate cash from properties in production that can then be used to support appraisal and development of other assets.

number of assets sold at auction."

Active sellers include Newfield Exploration, which completed the sale of its Malaysian business in February and is said to be looking to offload China assets as well. Meanwhile, Hess has exited its businesses in Indonesia and Thailand and Murphy Oil has sold its Malaysian interests. In each case, the buyers were local firms but multinationals and independents were also linked to these sales.

KrisEnergy's portfolio distribution



Source: KrisEnergy Note: Includes 2P (proven and probable reserves) and 2C (best estimate of contingent resources)

Through the First Reserve network, it helped to recruit independent directors who understand the industry and the region, including former CEOs of oil companies. Keppel is a case in point. The Singapore-headquartered company, which boasts an offshore and marine division that is leader in offshore rig design and construction and specialized shipbuilding, brought additional regional expertise to the KrisEnergy board. Keppel's current and former CEOs are the representatives.

The advisory side is particularly important given KrisEnergy's preference for operational control. Of its 19 contract areas, the company is block operator in 12.

"I get baffled when I see private equity backing teams that are not going to operate," Honeybourne says. "You can really only control the timeline if you are the operator and even then sometimes you can't because you have to deal with regulators, governments and partners. But you have a better chance of driving the timeline as the operator."

KrisEnergy also emphasizes building a diversified portfolio so that operations remain sustainable. The company has multiple exploration prospects within its 19 contract areas, as well as various others at the discovery stage, but they are counterbalanced by four properties that are either in production or soon will be – two oil and gas assets and an oil asset in the Gulf of Thailand, and a gas project in Bangladesh. A further eight are in appraisal and development.

"If you just look at exploration you are subject to the whims of mother nature. If you just look at production, you have to continue to sourcing assets," Lorentz says. "Having a portfolio where we can buy production when the price is low or explore and find reserves when the price is high."

Examined in a geographical context, however, the portfolio is less diversified. More than 70% of assets are concentrated in Indonesia, followed by Thailand on 18% and Cambodia and Bangladesh each in single digits. This is explained by KrisEnergy's opportunistic acquisition strategy.

For example, earlier this year the company paid $40 million for Premier Oil's stake in production sharing contract in Sumatra, Indonesia, where several gas discoveries have been made. Premier Oil put the asset up for sale a few years ago but failed to find a buyer willing to pay the asking price. Aware that the company had made a sizeable discovery in the Falkland Islands that will require substantial amounts of capital to develop, KrisEnergy approached Premier Oil and agreed a proprietary transaction.

Further deal flow could come from US oil companies in the midst of strategic repositioning. "Many US companies are refocusing on North America because of the shale opportunity, where the risk-return is so attractive. Shareholders are pressuring them not so much towards reserve growth and production growth but more towards return on investment," Honeybourne says. "You are seeing capital being drawn into the US and out of other areas. In Southeast Asia a

Growth story

Two rather obvious geographical holes in KrisEnergy's asset base are Myanmar and Malaysia – the former is next big thing, the latter an established player – though not for lack of effort. Lorenz says the company was outbid on three blocks in Myanmar last year and has lost out on at least half a dozen opportunities in Malaysia over the last five years. However, he does not see deal flow as a problem, noting that the team has reviewed well over 250 potential investments.

"Some of these deals we discarded immediately because the geology was terrible; some we have gone to the data rooms and discarded; and some we have gone all the way to an offer and lost," Lorentz adds. "We can screen deals very quickly. Of the 200 people we have outside of Bangladesh, one third of us are technical and were either born in Southeast Asia or have lived here a long time. There is hardly a single piece of acreage that hasn't had one of our team look at in the past."

Rather, the challenge is recruiting people fast enough to meet the needs of the portfolio. KrisEnergy's reserves are expected to more than triple in the next six months while production – 7,991 barrels of oil equivalent per day as of June 2014, up from 2,737 a year earlier – will rise fourfold over three years. As production ramps up, revenue and EBITDAX ($43.5 million and $20.9 million in the first half of 2014) should grow, but manpower requirements will also change. Facilities engineers are needed in addition to the geologists, geophysicists and business development executives.

As a financial investor, First Reserve will at some point complete its exit, but Lorentz believes KrisEnergy can continue to grow over the next 10-15 years. He sees the company building the largest E&P portfolio in Southeast Asia, which is what Pearl would have done had it not been acquired and become part of a global platform. But will someone pick up KrisEnergy as well?

"There's no doubt we will be taken over – everyone except Chevron and ExxonMobil is taken over eventually," Lorentz says. "Hopefully we will be taken over by someone who wants to keep us running in Southeast Asia."

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