Capital democracy?

VCs back peer-to-peer platforms as financing solution for China’s SMEs

Alibaba and the rest
Third quarter analysis: Funds, deals, exits

Dining out in Tokyo
Bain-backed restaurant chain goes public
Register before 17 NOVEMBER
to SAVE INR18,090/US$300

What’s new this year?

A panel of successful entrepreneurs from portfolio companies discussing how Private Equity and industry can effectively collaborate to deliver alpha

Sanjeev Aga
Business Advisor; Former MD, IDEA CELLULAR

Pramod Bhasin
Founder and Vice Chairman, GENPACT; Chairman, THE SKILLS ACADEMY

Investor Selector: a highly interactive and entertaining session on “What do LP’s really look for in a GP when deciding where to commit their money”

Yeni Kittrell
T: +852 3411 4836
E: Yeni.Kittrell@incisivemedia.com

For the latest programme and speaker line-up, visit avcjindia.com
EDITOR’S VIEWPOINT

tim.burroughs@incisivemedia.com

Cast your vote

VOTING FOR THE 2014 AVCJ PRIVATE Equity & Venture Capital Awards is now open. The PE community has until October 27 to pay tribute to the leading fundraises, investments, exits, individuals and firms of the past 12 months.

Votes are cast via the AVCJ Awards website (www.avcjforum.com/static/avcj-awards), which also includes full details of the process, rules and past winners. The public has a 50% say in the final outcome, with a judging panel of industry experts and the AVCJ Editorial Board each accounting for 25%.

Relying in part on industry recommendations, the AVCJ Editorial Board drew up nominee shortlists in consultation with the judging panel.

The nominees in each category are as follows:

FUNDRAISING OF THE YEAR – VENTURE CAPITAL
DCM Ventures China Fund (DCM VII)
GVG Capital I
Morningside China TMT Fund III
Qiming Venture Partners IV
Shunwei China Internet Fund II

FUNDRAISING OF THE YEAR – MID CAP
(Fund size – below $1 billion)
Kedaara Capital I
Orchid Asia VI
Quadrant Private Equity No.4 SSG Capital Partners II
Vision Knight Capital (China) Fund II

FUNDRAISING OF THE YEAR – LARGE CAP
(Fund size – above $1 billion)
Affinity Asia Pacific Fund IV
CDH Fund V
CVC Capital Partners Asia Pacific IV
Navis Asia Fund VII
Morgan Stanley Private Equity Asia IV

DEAL OF THE YEAR – VENTURE CAPITAL
Flipkart
LanzaTech NZ
Snapdeal
Youxinpai

DEAL OF THE YEAR – MID CAP
(Investment size – below $100 million)
CTOS Data Systems
Estia Health
IMAX China
National Bulk Handling Corp

DEAL OF THE YEAR – LARGE CAP
(Investment size – above $100 million)
Goodpack
Nanfu Battery
Sinopac Marketing
Sony Corp – personal computer business
Velocity Frequent Flier Program

EXIT OF THE YEAR – IPO
Alibaba Group
Asaleo Care
Healthscope
JD.com
Nord Anglia Education

EXIT OF THE YEAR – MID CAP
(Investment size on entry – below $100 million)
Dick Smith Holdings
Golden Gate
Tirumala Milk Products
United Cinemas
Yonghui Superstores

EXIT OF THE YEAR – LARGE CAP
(Investment size on entry – above $100 million)
CSPC Pharmaceutical
Matahari Department Store
Oriental Brewery
Peters Ice Cream
Techpack Solutions

VC PROFESSIONAL OF THE YEAR
Hurst Lin
Jixun Foo
Richard Liu
Naren Gupta
J.P. Gan

PE PROFESSIONAL OF THE YEAR
K.Y Tang
David Liu & Julian Wolhardt
Gabriel Li
Chris Hadley
Shuge Jiao

FIRM OF THE YEAR
Affinity Equity Partners
CVC Capital Partners
KKR
Pacific Equity Partners
Quadrant Private Equity

Union Bank of Colombo

The Publisher reserves all rights herein. Reproduction in whole or in part is permitted only with the written consent of AVCJ Group Limited.

ISSN 1817-1648 Copyright © 2014

AVCJ Group Limited.

Managing Editor
Tim Burroughs (852) 3411 4909
Staff Writers
Andrew Woodman (852) 3411 4852
Winnie Liu (852) 3411 4907

Creative Director
Dicky Tang

Designers
Catherine Chau, Edith Leung,
Mansfield Hor, Tony Chow

Senior Research Manager
Herbert Yum, Ias Chiu,
Jason Chong, Kaho Mak

Circulation Manager
Sally Yip
Circulaion Administrator
Prudence Lau

Subscription Sales Executive
Jade Chan
Manager, Delegate Sales
Pauline Chen

Director, Business Development
Darryl Mag
Manager, Business Development
Anil Nathani, Samuel Lau

Sales Coordinator
Debbie Koo

Conference Managers
Jonathan Cohen, Sarah Doyle,
Conference Administrator
Anargie Pan

Conference Coordinator
Fiona Kueang, Jovial Chung

Publishing Director
Allen Lee
Manager, Publishing
Jonathan Whiteley

Incisive Media
Unit 1401 Devon House, Taikoo Place
979 King’s Road, Quarry Bay,
Hong Kong
T. (852) 3411-4900
F. (852) 3411-4999
E. info@avcj.com
URL. avcj.com

Beijing Representative Office
No.1-2-5-B-4554, 1st Building,
No.66 Nanshatan,
Chaoyang District, Beijing,
People’s Republic of China
T. (86) 10 5869 6203
F. (86) 10 5869 6205
E. Beijing@avcj.com

E. beijing@avcj.com
T. (86) 10 5869 6203
F. (86) 10 5869 6205
E. beijing@avcj.com

The Publisher reserves all rights herein. Reproduction in whole or in part is permitted only with the written consent of AVCJ Group Limited.

ISSN 1817-1648 Copyright © 2014
Avenue bolsters Asia team ahead of fundraise
Avenue Capital Group has hired two executives from PAG – Anil Gorthy and Dan Galanter – to lead its Asia business, with a new regional fund planned for the coming year. Gorthy, who will become a senior portfolio manager, performed a similar strategy within PAG’s special situations division. Galanter has spent the last six years as head of business development at PAG.

Hony Capital acquires Shanghai Yangsi Hospital
Hony Capital has acquired Shanghai Yangsi Hospital, the largest privately-owned hospital in Shanghai. The deal size was not disclosed but it is said to amount to hundreds of millions of renminbi. The investment was made through Hony Healthcare, a healthcare-focused investment subsidiary set up by the PE firm.

Foxconn VC invests $98m in Taiwan Mobile
Hongyang Venture Capital Investment, a corporate investment arm of electronics manufacturer Foxconn Technology Group, has invested NT$2.98 billion ($98 million) in local telecom operator Taiwan Mobile. Hongyang has acquired 31.97 million shares of Taiwan Mobile at NT$93.2 apiece for a 0.93% stake in the company. The move is part of effort to enhance the two companies’ cooperation with the 4G mobile network built out.

CVC raises $78m via Jintian Pharma share sale
CVC Capital Partners raised HK$610.3 million ($78.7 million) through a block trade of shares in Jintian Pharmaceutical Group, a Chinese pharmaceutical retailer and distributor. The private equity firm sold 185.5 million shares at HK$3.29 apiece and retains a 6.9% stake in the company. The private equity firm will take a 79% stake in Nanfu Battery, with the entire transaction worth more than $500 million and possibly as much as $1 billion, according to a source familiar with the situation. It is expected to be completed before December.

Alibaba invests $50m in US TV remote app Peel
Alibaba Group, China’s largest e-commerce player, has invested $50 million in Peel TV remote app.

China’s CDH agrees Nanfu Battery carve-out from P&G
CDH Investments has agreed a buy Fujian Nanping Nanfu Battery, China’s leading manufacturer of alkaline batteries, from Procter & Gamble (P&G) in one of the largest PE corporate carve-outs ever seen in the country. The private equity firm will take a 79% stake in Nanfu Battery, with the entire transaction worth more than $500 million and possibly as much as $1 billion, according to a source familiar with the situation. It is expected to be completed before December.

Sun Hung Kai invests in P2P lending site
Sun Hung Kai & Co, a leading Hong Kong financial institution, has invested in a Series B round of funding for Chinese peer-to-peer (P2P) lending service Dianrong. The company was launched in March 2013 by Soul Htite, a former Oracle executive who co-founded US-based P2P lending service Lending Club, and Yuhang Guo, an intellectual property lawyer.

Tianhe drops on resumption of trading
Morgan Stanley Private Equity Asia (MSPEA) portfolio company Tianhe Chemicals saw its stock drop 43% on resumption of trading in Hong Kong following allegations of fraud. Tianhe issued a lengthy rebuttal of the allegations, while simultaneously announcing strong quarterly earnings figures.

Baidu buys VC-backed Brazilian discount site
Chinese search giant Baidu has bought a controlling stake in Brazil-based Peixe Urbano, an online discount platform that has received several rounds of VC funding, for an undisclosed sum. Baidu will bring access to capital and expertise, but Peixe Urbano will be run as an independent entity within the Chinese company’s corporate ecosystem. The existing management team, led by co-founder and CEO Julio Vasconcellos, will remain in place.

Xiaomi commits $14m to GPS firm Careland
Chinese VC-backed smart phone maker Xiaomi has invested RMB884 million ($14 million) in Careland Information System, a Shenzhen-based GPS mapping technology developer. Xiaomi has subscribed to 7 million shares in Careland, at RMB12 apiece. Set up in 1999, Careland provides GPS mapping and navigation software to smart phone manufacturers and car makers.

Bertelsmann Asia launches angel fund in China
Bertelsmann Asia Investments (BAI), the Beijing-based investment arm of German media giant Bertelsmann, has launched a new angel fund to focus on seed-stage investments in China. The so-called BetaFund - which was announced at
a press conference in Zhongguancun, Beijing’s technology hub - is said expected to invest tens of millions dollars over the next 2-3 years.

**Singtel Innov8’s Bao Bean joins SOS Ventures**

William Bao Bean, formerly managing director with corporate venture unit Singtel Innov8, has joined SOS Ventures as its investment partner in China. He will take over as managing director of Chinaccelerator, the firm’s Shanghai-based business accelerator.

**NORTH ASIA**

**J-Star to exit healthcare firm HCM to Alshok Group**

Japanese security firm Alshok Group has agreed to acquire Tokyo-based healthcare service provider HCM Corporation, paving an exit for mid-market GP J-Star The PE firm - which currently holds a 56.9% stake in HCM - acquired its interest in the company in May 2011 via a management buyout that was understood to be valued at about $30 million.

**Mercari raises $22m Series C round**

Mercari, the Japanese start-up behind the mobile flea market app of the same name, has raised JPY2.36 billion ($21.8 million) in Series C funding from World Innovation Lab (WIL) and existing investors Global Brain, Globis Capital Partners, GMO Venture Partners and East Ventures. The start-up - previously named Kouzouh - has now raised about $38.7 million across four rounds.

**BrainWars app raises $2.8m in VC funding**

East Ventures, Skyland Ventures, Genuine Startups and Line Ventures, the VC unit of messaging app firm Line Corp, have together invested JPY300 million ($2.8 million) in TransLimit, the Tokyo-based start-up behind social quiz app BrainWars. Launched in March this year, BrainWars pits players against one another in a series of mental exercise games in real time.

**Gree Ventures backs Japan marketing start-up**

Japanese online marketing firm Somerwrite has raised JPY100 million (about $1 million) from Gree Ventures and other undisclosed investors. This represents the start-up’s first institutional investment in Japan.

**IDFC closes second India infra fund at $900m**

IDFC Alternatives has reached a final close on its second Indian core infrastructure fund of $900 million. LPs have also pledged significant additional capital for co-investment opportunities. It is the fourth-largest India infrastructure fund ever raised.

Third-party investors, including institutional players from North America, Europe and the Middle East, account for $810 million of the IIIF2 corpus. The remaining $90 million of IIIF2 has been committed by parent company IDFC. The fund launched in early 2013, with a first close of $644 million coming in September of that year.

The IDFC contribution to the first close was $64 million. LPs in the fund include CDC Group, the UK government’s development finance arm, which has put in $200 million.

“We are very pleased with the high quality and marquee investors that IIIF II has attracted and are proud of the speed with which IIIF II has been subscribed to, especially given the difficult economic and financial conditions that prevailed during the majority of our fund-raising period,” M.K. Sinha, managing partner and CEO of IDFC Alternatives, said in a statement.

IIIF2 will follow a similar strategy to its predecessor, targeting core infrastructure assets, including under construction and operational assets, and work with proven partners. The primary sectors of interest are roads, ports, airports and power.

**Solar developer backed by Kotak Mahindra, EIB funds**

Kotak Mahindra Group and European Investment Bank Group (EIB) have together committed INR2 billion ($32.7 million) to India Solar Energy Firm SolarArise India Projects. EIB is making its investment via Luxembourg-based fund-of-funds Global Energy Efficiency and Renewable Energy Fund (GEEREF) while Kotak Mahindra is investing through the Core Infrastrucure India Fund (CIIF).

**SAIF Partners invest $13m in Indian jewelry chain**

SAIF Partners has invested INR800 million ($13 million) in Senco Gold, an Indian jewelry retail chain. Headquartered in Kolkata, Senco produces handcrafted jewelry. It claims to be one of the largest jewelry retail chains in eastern India, with 59 outlets nationwide - of which 29 are company-owned while the remaining 30 are run by exclusive franchisees.

**Matrix backs recruitment service GrownOut**

Matrix Partners India has provided a first institutional round of funding for GrownOut, an online platform that helps companies identify potential recruits on the basis of referrals sourced via employees’ professional networks. With backing from early-stage investor Outbox Ventures, the first version of GrownOut was launched in March 2014. It is currently used by companies including Quikr, Ola and Stayzilla.

**GIC leads $150m round for US start-up Square**

Singapore sovereign wealth fund GIC Private is said to have led a $150 million Series E round investment in US e-payments start-up Square. The round values the company at about $6 billion. Previous investors Goldman Sachs and Rizvi Traverse Management also participated.

Last month the start-up was reportedly seeking to raise $100 million. A Square spokesperson confirmed the company had received new funding but offered no further details.
Confirmed speakers include:

Keynotes:
- KAO Shien-quey, Deputy Minister, NATIONAL DEVELOPMENT COUNCIL
- Nicky Lu, Chairman & CEO, ETRON TECHNOLOGY, INC.

Chien-Yi Chang, Director, Research Division II, TAIWAN INSTITUTE OF ECONOMIC RESEARCH
- Ming Bin Chang, Deputy Director-General, INVESTMENT COMMISSION, MOEA
- Andrew S. Hawkyard, Chief Operating Officer, MORGAN STANLEY PRIVATE EQUITY ASIA
- Richard Hsu, Managing Director, INTEL CAPITAL
- CY Huang, President, FCC PARTNERS
- Nisa Leung, Managing Partner, QIMING VENTURE PARTNERS
- Gordon Shaw, Managing Director, Shanghai BARING PRIVATE EQUITY ASIA
- Weichou Su, Partner, STEPSTONE GROUP
- Sonia Sun, Partner, KPMG LAW FIRM
- Alex Ying, Managing Director, THE CARLYLE GROUP
- Brooke Zhou, Executive Director - Asia Pacific, Private Equity, LGT CAPITAL PARTNERS

For the latest programme and speaker line-up, please visit avcjtaïwan.com
Money to the masses

The rise of peer-to-peer lending businesses in China is good for small companies that can't get bank financing and VC firms looking to ride the next wave. But concerns remain over regulation and reliability.

ALIBABA GROUP’S ARRIVAL IN THE
internet finance space inevitably created
shockwaves. Last year the e-commerce giant
bought Tianhong Asset Management and within
a few months the Yu’e Bao money market fund
had swelled tenfold to RMB500 billion ($81
billion). Once the 50th largest fund house in
China, suddenly Tianhong was in top spot.

Investors flocked to the fund but only existing
users of online payment service Alipay got
access. Just as it had disrupted retail, so Alibaba
was threatening to do the same to finance, using
its unique reach to offer customers a potentially
more lucrative alternative to bank deposits. As
an added incentive, redemptions are permitted
at any time – provided the proceeds are used to
shop on the Alibaba platform.

The ripples were felt at all levels of online
financial services, including peer-to-peer (P2P)
lending. There were 600 P2P lending sites in
China at the end of 2013, up from 240 in 2012
and 20 in 2011. As of June 2014, there were 1,263.
Transaction volume reached RMB10 billion in the
first half of the year – close to the full-year total for
2013 – according to the Internet Society of China.

The P2P premise is simple: People lend their
money to strangers for virtually anything – a
new car, home improvements – and in turn
enjoy interest rates exceeding 15%, far more
than the 3% offered by banks. More importantly,
the online platform serves as a bridge between
lenders and small-scale start-ups, many of which
are unable to get bank funding.

Venture capitalists see it as an enormous
investment opportunity, partly because the likes
of Baidu, Alibaba and Tencent Holdings have yet
to build a dominant presence in the space.

“There is a market window to invest in P2P
platforms,” says Ray Yang, managing partner
at Northern Light Venture Capital (NLVC). “There
are four large state-owned banks and more than
5,000 smaller banks nationwide. Online P2P
platforms are shaking up the traditional banking
system and adding value to it. Internet giants
like Alibaba cannot monopolize the entire P2P
online lending landscape because it’s out of their
current ecosystem.”

However, exposure to the industry requires
a high level of risk tolerance. When the first P2P
site was launched in 2007, there were no specific
rules. The explosion in activity has made the
regulators sit up and take notice. If and when
they do impose stricter requirements in order
to protect customers, it will bring additional
pressure to an already fiercely competitive
industry. Consolidation is all but certain.

VC investment in the space is rising in
tandem with market interest. According to AVCJ
Research, about $99 million has been invested
in four online P2P sites so far this year, while
the valuations for six more deals have not been
disclosed. This compares to $143 million for two
disclosed deals in 2013 and $25 million for one
transaction in 2012.

At the same time, market research firm
Reportstack estimates that 71 of the 800-
plus online lending platforms it tracked went
bankrupt last year.

Official support

P2P lending has existed for years as part of the
shadow banking sector, but it has become more
prominent in response to liquidity tightening
at central bank level. Unable to borrow money
through conventional channels, the small and
medium-sized enterprises (SMEs) that contribute
up to 70% of GDP but receive only about 37% of
total financing must look elsewhere. Moody’s
estimates that the balance of outstanding
shadow banking products in China stands at
RMB21 trillion ($3 trillion).

Non-banking financial institutions raise funds
from retail investors through selling wealth
management products. However, some of these
work report for the first time as Premier Li
Keqiang pledged to promote the healthy
development of the industry. In response, Yi
Gang, governor of the People’s Bank of China
(PBoC), noted that despite being supportive of
innovation, the central bank will take appropriate
measures to minimize risk.

“The authorities support the industry and
won’t surprise people with new rules, for
example saying that all online P2P lending sites
are illegal,” says Raymond Wang, managing
partner at Beijing-based law firm Anli Partners.

“That’s why we’re seeing VC investors feel more
comfortable about investing in this sector.”

Most of top 20 P2P lending platforms have
received VC funding. PPDai, founded in 2007, was
among the first batch of start-ups and has raised
capital from Lightspeed China Partners, Sequoia
Capital and Noah Holdings. Yooli.com, started

Average size of online P2P transactions in China, 2013

<table>
<thead>
<tr>
<th>Average of online P2P transactions in China, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above RMB50,000</td>
</tr>
<tr>
<td>RMB10,000-50,000</td>
</tr>
<tr>
<td>RMB5,001-10,000</td>
</tr>
<tr>
<td>RMB2,001-5,000</td>
</tr>
<tr>
<td>RMB1,001-2,000</td>
</tr>
<tr>
<td>RMB501-1,000</td>
</tr>
<tr>
<td>RMB201-500</td>
</tr>
<tr>
<td>RMB101-200</td>
</tr>
<tr>
<td>RMB50-100</td>
</tr>
</tbody>
</table>

Source: iResearch
by a former executive at TPG Capital, received backing from Morningside Technologies and Softbank China.

Meanwhile, Dianrong.com, launched by Soul Htite, co-founder of US-based Lending Club, and Kevin Guo, an intellectual property lawyer, has raised two rounds of funding from NLVC and Hong Kong financial institution Sun Hung Kai & Co. Jimubox, which came online in August last year, recently got $37 million from smart phone maker Xiaomi and Shunwei Capital Partners.

Unlike online payment firms – a former venture capital darling – P2P lenders are reasonably differentiated and it is unlikely that one or two players will dominate the market.

A blurred line

However, these differentiated business models are a potential headache for the authorities. The China Banking Regulatory Commission (CBRC) is seeking to impose some rules on the industry because of concerns that individual lenders will fall victim to illegal fundraising and poor credit management by platforms.

"It's clear that the CBRC mainly allows P2P to do, " says Anli's Wang.

"To lenders, which is usually what the traditional accounts and they can't provide loans guarantees operators can't manage capital on their own management by platforms.

China online P2P platform transaction volume

![China online P2P platform transaction volume chart](image)

Source: Internet Society of China

regarded by many as unsurpassable. In contrast, the P2P online market is large to accommodate various business models, based on different underlying assets. For example, a P2P platform that specializes in providing loans for SMEs in Beijing may not have a similarly strong local network in Shandong province.

A blurred line

While relying on guarantors means the platform itself is exposed to minimal risk, the lenders’ risk is substantially higher because neither they nor the platform know where the money is going. VC investors are therefore cautious: "The problem in China is that third-party guarantors are immature and their potential default risks are high," NLVC’s Yang says. "You can't fully rely on them."

Industry participants also express reservations about CreditEase’s credit assignment model. Instead of collecting money from lenders, Tang Ning, the company’s founder and CEO, will firstly lend his own money to the borrowers. Then he sells the loans to other investors who in turn become the lenders.

"This structure is legal according to the law. Another reason for taking this approach is that their capacity to pay is assessed, and inquiries are made to ensure the loan will be used for the stated purpose. On the lender side, the platform allows lenders to commit small amounts across thousands of loans without Dianrong performing any money management role. Lenders can say which borrowers will receive their capital.

The downside to this approach is that it takes much longer to achieve scale than platforms that acquire the customers first. Yooli launched in February of last year and already has more than 790,000 registered lenders with total transaction value exceeding $300 million since inception. PPDai has been around six years longer but its transaction volume is a fraction of that size. Dianrong has the same issue.

"Although our practices are close to what the regulators expect, it’s difficult to scale up quickly," says Guo, Dianrong’s other co-founder. "If a small company wants to borrow RMB30,000 within a three-day window, it is very hard for us to accommodate them. We have to evaluate the borrower’s debt repayment capability even though we might assume the borrower is able to make payments on time."

Credibility questions

Dianrong’s transaction volume stands at RMB100 million per month and it has a risk management team of more than 300 people. The company has also sought to build up its market reputation through a partnership with China Orient Asset Management, a state-owned fund house.

Other P2P online platforms have also teamed up with third-party guarantors to help drive confidence in the industry. Yooli uses a third-party guarantor to ensure that lenders receive the monthly returns they have been promised. It also sources funding projects from guarantors, including small credit leasing firms, to raise funds online. In such cases, Yooli might not know who the borrowers are.

<table>
<thead>
<tr>
<th>Year</th>
<th>Transaction Volume (RMB billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>100</td>
</tr>
<tr>
<td>2012</td>
<td>200</td>
</tr>
<tr>
<td>2013</td>
<td>300</td>
</tr>
<tr>
<td>2014</td>
<td>400</td>
</tr>
</tbody>
</table>

Source: Internet Society of China

...
technology was lagging eight years ago. It was impossible to use digital signatures to help complete transactions over the internet. Since the technology has improved, the majority of borrowers and lenders on our platform now enter into loan agreements directly. This is a good example of how technology helps transform finance,” Tang says.

Founded in 2006 as a bricks-and-mortar operation, CreditEase has expanded rapidly and now offers a range of consultancy services, including wealth management. It has received investment from the likes of IDG Capital Partners, Morgan Stanley Private Equity Asia and KPCB.

Now the company is also in the process of moving online. One investor familiar with the firm suggests that a network of physical stores could reassure potential customers unfamiliar with internet finance. A P2P player that starts online could face questions about reliability and sustainability and by extension its ability to operate offline.

“It’s not too difficult to set up a pure online platform but it takes a long time to build up a risk management culture and credit risk management ability, just like traditional financial services,” the investor says. He adds that, unlike more developed markets, credit risk management is about more than a borrower’s ability to repay the debt; in China fraud risk is a key consideration too and scams are sometimes very well-organized.

It is unlikely that the Chinese authorities will unveil rules for online P2P platforms this year. The regulators require time to continue familiarizing themselves with the industry and come up with an appropriate approach. But few in the industry are under the illusion that this will not happen.

“There is a clear line that distinguishes us from banks – we do not get involved in the transaction. Of course, to do what banks do requires a license”  

– Soul Htite

The natural consequence is smaller firms exiting the business, either because they don’t have the resources to address unsustainable lending practices and poor credit risk management, or because they don’t have the will to try. In that context, cooperation with traditional financial institutions is important – these groups have the staff and facilities to meet with borrowers and verify submitted information.

At the same time, traditional banks and other financial institutions are also trying to build out their own online presence. However, unlike the P2P lenders – at least for now – they face significant regulatory requirements and have a host of other issues to deal with, such as non-performing loans, interest rate liberalization and increased competition on main street as well as online.

“These challenges make it difficult to innovate in the same way that we’re seeing from the technology companies,” says Kapron of Kapronasia. “Certainly, this could change going forward, but it will take significant investment and a change in mindset for them to be able to compete effectively. We could see institutions buy some of the larger online players.”

This week Dianrong became the first online P2P platform to form a partnership with a local bank. It will work with Bank of Suzhou on providing lending services to SMEs in Jiangsu province – cost-effectively and online.
For 27 years, the **AVCJ Forum** has brought together leading investors from across the globe for three days of high-level dialogue, debate and networking.

**KEYNOTE ADDRESSES:**

- **John Connaughton**
  Managing Director
  BAIN CAPITAL

- **Scott Kupor**
  Managing Partner
  ANDRESSEN HOROWITZ

- **Volkert Doeksen**
  Co-founder
  ALPINVEST PARTNERS

- **D. Brooks Zug**
  Senior Managing Director and Founder
  HARBOURVEST PARTNERS

Two global titans discuss the past, present and future of private equity

Global Influencers descending on Hong Kong to speak at the forum include:

- **Weijian Shan**
  Group Chairman & Chief Executive Officer
  PAG

- **Roy Kuan**
  Managing Partner
  CVC CAPITAL PARTNERS

- **Marcus Thompson**
  Chief Executive Officer
  HEADLAND CAPITAL PARTNERS

- **H Chin Chou**
  Chief Executive Officer
  MORGAN STANLEY PRIVATE EQUITY ASIA

- **Faiz Mayalakkara**
  Director, Private Equity
  EMIRATES INVESTMENT AUTHORITY

- **Oliver Gottschalg**
  Academic Dean,
  TRIUM Global EMBA Program
  HEC SCHOOL OF MANAGEMENT

- **Kuo Chuan Kung**
  Partner
  MBK PARTNERS

- **John Lewis**
  Chief Executive Officer
  UNITAS CAPITAL

- **Kok Yew Tang**
  Chairman & Managing Partner
  AFFINITY EQUITY PARTNERS

- **Jeremy Coller**
  Executive Chairman and CIO
  COLLER CAPITAL

- **Denis Tse**
  Head of Asia - Private Investments
  LOCKHEED MARTIN INVESTMENT MANAGEMENT COMPANY

- **Daniel Mintz**
  Managing Director
  OLYMPUS CAPITAL ASIA

- **Richard Folsom**
  Representative Partner
  ADVANTAGE PARTNERS, LLP

- **Jeremy Coller**
  Executive Chairman and CIO
  COLLER CAPITAL

- **Foiz Mayalakkara**
  Director, Private Equity
  EMIRATES INVESTMENT AUTHORITY

- **Denis Tse**
  Head of Asia - Private Investments
  LOCKHEED MARTIN INVESTMENT MANAGEMENT COMPANY

- **Jacques Demers**
  Global Head, Investment Partners & Partnerships
  OMERS

- **John Lewis**
  Chief Executive Officer
  UNITAS CAPITAL

- **... and many others!**

For the latest programme and speaker line-up, visit [avcjforum.com](http://avcjforum.com)
The IPO genie

Real and paper windfall for PE investors in Alibaba spurs exit environment; the latest round of fundraising for pan-regional mega vehicles draws to a close; growth capital dominates the investment numbers

1) Exits: Alibaba makes PE wishes come true
At $3.3 billion, the overallotment option on Alibaba Group’s IPO was more than one third the size of the total proceeds from private equity-backed offerings in the second quarter of 2014. This put the size of the third quarter IPO spike in context. Buoyed by the world’s biggest ever public offering, the $34.2 billion raised is unsurprisingly the highest on record.

But it wasn’t just an Alibaba story. Chinese pork producer WH Group – known as Shuanghui International until a touch of re-branding after the acquisition of US-based Smithfield Foods – pitched in with $2.4 billion, while the IPO of Australian hospital operator Healthscope raised a further A$2.25 billion ($2.1 billion)

CDH Investments, Goldman Sachs, New Horizon Capital, Temasek Holdings and Kerry Holdings did not take any money off the table, their combined interest in the company is now worth around HK$52 billion. Healthscope’s owners, TPG Capital and The Carlyle Group, were able to realize proceeds of A$654 million. They still hold a 38% stake worth approximately A$1.6 billion at current market prices.

As for Alibaba, eight private investors – in alphabetical order: Asia Alternatives Management, Boyu Capital, China Investment Corp, CITIC Capital, Siguler Guff, Silver Lake, Temasek Holdings-owned Pavilion Capital and Yunfeng Capital – all made partial exits. Though tiny in percentage terms, these sales between them generated $2.2 billion. These calculations apply to the $21.8 billion offering prior to underwriters fully exercising the overallotment option, which took the total to $25 billion.

Of the GPs, Silver Lake and Yunfeng can consider themselves big winners. Silver Lake is said to have committed $300 million to the company, investing in 2011 as part of a consortium that paid $2 billion for a 5.7% stake and again as part of a $7.6 billion debt and equity fundraising effort used to take out half Yahoo’s holding in 2012. The PE firm’s partial exit was worth $278.8 million and it retains a 2.2% interest with a current valuation of around $4.7 billion.

Yunfeng first invested in 2011 as part of the same consortium as Silver Lake. It is sold $442 million in shares through the IPO and now has a 1.1% stake worth nearly $2.4 billion.

Alibaba’s $2.2 billion contribution helped private equity exits by way of public market sales reach $6.4 billion in the third quarter of 2014, more than double the total for the previous three months and the third-highest quarterly total ever seen. It did not, however, translate into a bumper period for overall PE exits. According to preliminary data from AVCJ Research, a total of $14.1 billion was raised, compared to $15.4 billion and $14.1 billion for the previous two quarters.

The key element was the trade sale figure, which came to $6.1 billion, down from $8.5 billion for April-June 2014. Secondary sales also fell from $3.5 billion to $1.5 billion. The first quarter had Oriental Brewery and the second quarter had Queensland Motorways, the only single-hit exits in Asia to exceed $5 billion. MBK Partners’ agreement to offload Taiwan cable TV operator CNS was the largest trade sale of the July-September period at $2.4 billion.

However, there is reason to believe that 2014 could yet surpass 2012 as the biggest year on record for Asian PE exits. The 2012 total was $53.5 billion. With $44.7 billion already logged for 2014, the final quarter figure could drop into the single digits and still be enough to claim top spot.

2) Fundraising: Look past China to the pan-regionals
China private equity fundraising slumped from $10.2 billion in the first quarter of 2012 to just $2.6 billion in the third quarter of 2013. The industry has since recovered from this nadir with
progressively large sums raised over the first three quarters of 2014.

The revival was initially driven by venture capital. Between April and June alone, a total of $4 billion entered China-focused VC funds – 26% of the capital entering all PE funds in the region. This momentum was never likely to be sustained into the third quarter and indeed it wasn’t: China VC fundraising slipped to $382.6 million. Yet China private equity continued its roll, with $9.7 billion committed to the asset class during the quarter, up from $6.7 billion for the previous three months.

However, $8.1 billion of this total went to a single vehicle – the China Minsheng Investment Fund. Set up by the former head of China Minsheng Banking Corporation, an inauguration ceremony was held for the fund in August. It was announced that 59 domestic enterprises are serving as LPs, including leading appliances maker Suning Commerce Group.

It is difficult to know quite what to believe in these situations. Numerous questions remain unanswered, notably whether the fund is governed by a traditional GP-LP structure and whether the stated amount of capital has really been committed. Chinese private equity comes in many different forms.

What is arguably more interesting about the driving factors responsible for the uptick in Asia private equity fundraising is the role of the pan-regional vehicles. Just as the China share has grown since the start of the year, so has the Hong Kong contribution – and most Asia vehicles are classified by AVCJ Research as resident in this jurisdiction. A relatively low first-quarter total of $1.5 billion was followed by consecutive three-month periods in which fundraising reached $5.9 billion and $3.9 billion.

This is essentially the final hurrah in the three-year process that has seen nearly all of the largest global and Asia-based PE firms raise their first regional vehicles since before the global financial crisis. Starting with Bain Capital Asia II, which reached a final close in July 2012, eight firms have raised $27.2 billion between them. In addition to Bain, they include KKR, MBK Partners, Affinity Equity Partners, CVC Capital Partners, Morgan Stanley Private Equity Asia and The Carlyle Group. The latter two closed in the third quarter of 2014 on $1.7 billion and $3.9 billion, respectively.

In all but two cases the funds are larger than their predecessors, with four finishing above target and two increasing their hard caps. It hasn’t been plain sailing for all, but the continued patronage of these GPs points to two trends. First, the flight to quality in Asian private equity as LPs gravitate towards a smaller number of GPs, with stand-out performers and brand names the obvious beneficiaries. Second, when individual markets are blighted by uncertainty, there is comfort in a pan-regional strategy.

Once Baring Private Equity Asia closes its sixth fund, there is likely to be a period of more modest quarterly fundraising totals and more mid-market GPs.

3) Investment: Growth capital dominates
Charactrized as a significant step in China’s push to restructure state-owned enterprises by bringing in more private capital to diversify ownership, oil refiner Sinopec agreed to sell a 29.9% stake in its retail business in September for $17 billion. Private equity investors China International Capital Corp (CICC), Bohai Industrial Investment Fund Management, RRJ Capital, Haixia Capital, Goldstone Investment and Hopu Investment picked up 8.7% for just over $5 billion. It followed another consortium deal in which the likes of Warburg Pincus, Goldman Sachs, CITIC Securities, Khazanah Nasional, CICC and Fosun International participated in a $2.35 billion investment in China Huarong Asset Management. The company, which is expected to go public, is one of four groups tasked with managing non-performing loans (NPLs) from state-owned banks.

These two transactions were largely responsible for China PE investment reaching a single-quarter high of $13.1 billion for July-September 2014. With deal flow in most other major jurisdictions either flat of declining, the China share of the Asia investment jumped to 63%, up from 30% the previous quarter. Investment was also slightly up on the April-June period at $20.8 billion compared to $19 billion.

Sinopec Marketing and Huarong boosted the growth capital contribution nearly twofold to $13.5 billion while buyouts slipped from $8 billion to $3.9 billion. It serves as a reminder that – from a China perspective – although there is increasing interest in and availability of control deals, growth capital will likely remain the lifeblood of the industry for some years to come.

How strongly state-owned enterprise restructuring features in this remains to be seen. Sinopec Marketing and Huarong are both examples of deals that are relatively rare, run as highly competitive processes, and often expensive to get into. But there is the sweeter end of an all-but-guaranteed public market exit at the end.
Bain serves up Skylark in Tokyo IPO

WHEN BAIN CAPITAL BOUGHT SKYLARK IN 2011, the restaurant operator was going through one of the rougher patches of its 40-year history. A dysentery outbreak had forced the closure of 120 outlets, further delaying a transaction that had already been on hold for several months as a result of the Fukushima earthquake.

Despite the drawbacks, Bain – which already had exposure to the sector through Domino's Japan – remained keen on the business and confident it could unlock more value. It eventually bought a 100% stake in the business from Nomura Principal Finance for JPY160 billion ($2.1 billion).

“We have had a lot of experience in the retail and restaurant sector and in Skylark we saw a very well-positioned business, but one that had a lot of opportunities to be run better,” explains David Gross-Loh, managing director with Bain in Japan. “The original team was a solid, but we felt we wanted to take it from a leading Japanese player to a business that could perform on a global level, so the first step was building the management.”

The PE firm’s first move was to bring in Ralph Alvarez, former global president and COO of McDonald’s Corporation as chairman. It further bolstered the management team with executives from the likes of Starbucks and Uniqlo. The second stage was to focus on customer service, in particular addressing issues with waiting times and consistency in the quality of food preparation across the outlets.

“We implemented a bunch of standards and tracking metrics – things you would commonly see in the US - to increase productivity and reduce wait times, particularly at peak hours. We also reconfigured tables so people could be seated more quickly,” says Gross-Loh.

The strategy seemed to pay off, with the company reporting improved customer satisfaction scores and seeing steady same store sales (SSS) growth for the first time in several years. It was this, plus the positive performance of the Japanese equities markets in the wake of the country’s economic reforms, that prompted Bain’s decision to take the company’s public.

Skylark sold 62.6 million shares – including an overallotment option of 7 million shares – at JPY1,200 apiece, the bottom end of the indicative range. Bain’s stake fell from 97.7% to 66.1% as it took the opportunity to realize JPY68.8 billion from the investment. Skylark dropped 5% on its first day of trading on October 9.

The stock is yet to recover, having last traded at JPY1,138, but Gross-Loh remains optimistic, saying there is a lot more work to do.

“We have spent the last couple of years getting the fundamentals strong again and now we are looking at growing our footprint,” he explains. “We think there is a sizeable opportunity in Japan to open new stores and we have identified around 1,000 new locations. The return on the economics for a Skylark store is very attractive – around 20-30% – that is going to be another piece of our growth story.”

Navis makes Modern Star education play

JUST OVER A YEAR AGO, NAVIS CAPITAL Partners bought Australian childcare services provider Guardian Early Learning from fellow PE investor Wolsey Private Equity for A$120 million ($110 million). The idea then was to anticipate the rise in the demand for childcare services amid wider government efforts to get mothers back into work and bolster the country’s dwindling tax base.

With its latest investment in Modern Star – another Australian firm – Navis is tapping the same opportunity, although this time it has entered at a different point in the value chain. Instead of providing education, Modern Star supplies the vast catalogue of specialist furniture, equipment, toys and teaching aids that companies like Guardian require.

“The company supplies 20,000 childcare centers, primary schools and secondary schools across the whole of Australia and New Zealand,” says Philip Latham, a partner at the PE firm. “It’s everything from blocks, bricks, crayons, white boards and sports equipment, as well as more complex items for primary and secondary schools such as lab equipment, robotics, beakers and Bunsen burners.”

According to sources familiar with the situation, Modern Star’s EBITDA is around A$23 million ($20 million) and the deal values the firm at approximately 8x that.

While the industry is large, it is also highly fragmented. Between 400 and 500 companies – ranging from specialist suppliers focusing on sports or science equipment to more generalist players – supply the country’s schools and nurseries.

“The strategy is first to become stronger in Australia through consolidation of this fragmented supply base, so we will look for companies with particular products or relationships that we think would be valuable,” says Latham. “But the strategy will also look at international diversification and how this company can become a supplier to schools in jurisdictions like Hong Kong and Singapore.”

However, education is just one part of the company’s business. Modern Star is also Australia’s biggest independent toy supplier, selling both its own products and acting as the exclusive Australian supplier for global brands such as puzzle-maker Ravensburger and action figure brand Schleich.

In total, the company holds an inventory of 10,000 products and has around 40,000 customer relationships – including schools, children centres and specialist toy shops. At present, around 60% of Modern Star’s business is conducted online, with the balance of transactions executed by on-the-ground reps.

While international expansion is very much on the agenda, the company will seek to build upon its strengths in an orderly fashion. “We will decide where we want to go deepest, that might be in science products, or arts and crafts, or even outdoor sports,” says Latham. “Then we can decide where the best opportunities are for organic expansion – through product development – and acquisitive expansion.”
William Bao Bean has left Singtel Innova8 for a new role as investment partner of SOS Ventures in China and managing director of the firm’s accelerator program. He shares his thoughts on the China start-up scene.

Q: Why the move?
A: I am very interested in early-stage investment and building up the China ecosystem, and also in the cross-border element. The SOS platform is extremely powerful, doing over 120 investments a year. It operates as an evergreen fund and has a very strong IRR. Their brand of mentor-driven accelerator investment really fits with my approach. I’ve been a mentor at Chinaccelerator since the beginning in 2010 and also at hardware accelerator HAXLR8R. There are six accelerator programs globally and then we also make direct investments of $50,000 to $5 million. These may be follow-ons or investments in companies that aren’t part of the accelerator programs.

Q: Five batches of start-ups come through Chinaccelerator. What are the big success stories?
A: Orderwithme was founded in Hangzhou and started off helping US small retailers buy directly from factories in China. They have since expanded into a platform managing all relationships between retailers, distributors and factories. The company has moved to Las Vegas and now focuses on connecting US retailers with factories all over the world and managing the supply chain. They raised a Series A round from SOS Ventures and another VC firm, and then got a $6 million Series B round last year led by Tony Hsieh’s VegasTechFund. Another company, which came out of the program last year, is called Launchpilots and runs student events on university campuses. They started in Hong Kong and we helped them get into China.

“...is extremely powerful, doing over 120 investments a year. It operates as an evergreen fund and has a very strong IRR. Their brand of mentor-driven accelerator investment really fits with my approach. I’ve been a mentor at Chinaccelerator since the beginning in 2010 and also at hardware accelerator HAXLR8R. There are six accelerator programs globally and then we also make direct investments of $50,000 to $5 million. These may be follow-ons or investments in companies that aren’t part of the accelerator programs."

Now they cover 250 universities nationwide. If you are a brand that wants to reach out to the university population you go to Launchpilots.

Q: What kind of support do start-ups receive?
A: Once you are accepted into the program you get $16,000 in cash plus services such as free rent for six months and attendance at the 8x8 conferences we hold in Beijing and Shanghai. After graduation we expose start-ups to a wide variety of funding sources. We have 150 mentors who are business leaders and entrepreneurs and many become investors in the companies they mentor. We also have close relations with AngelVest, the largest angel group in North Asia, as well as a network of other angel funds and early-stage investors. We differ from other accelerators in that SOS Ventures usually invests in the start-ups that come out of the program. The model works especially well when you double down on the winners.

Q: What is behind the rise in angel investors? Is it evidence of the virtuous cycle, with successful entrepreneurs backing the next generation of start-ups?
A: Rather than follow what US entrepreneurs did and turn their companies over to professional management and start that virtuous cycle, the first generation of entrepreneurs in China are still running their companies. However, the second generation – who worked at those first-generation companies before starting their own businesses – are exiting. People have made money from stock options or by selling to Alibaba Group or Tencent Holdings, they have capital and experience, and they are investing. So the second generation is now funding the third generation, and the first generation is purchasing everyone. This round of acquisitions has only been going for two years. Before that, most companies did everything in house – they saw someone doing something good, put together a product team and it themselves. However, China has become so competitive and talent has become so scarce that the internet leaders have added the acquisition tool to their tool box.
AVCJ Private Equity & Venture Capital Awards – Asia
Voting now open until 27 October. ACT NOW!

Held in conjunction with the AVCJ Forum and now in their 14th year, the AVCJ Awards have become the highest distinction that can be achieved in private equity in Asia, and a showcase for first-class innovation, ingenuity and performance.

Tell us who you think deserves recognition.
Voting now open until 27 October, 2014.
Visit www.avcjforum.com/static/avcj-awards and start to vote.

For any enquiries, please e-mail Tim.Burroughs@incisivemedia.com

THE CATEGORIES & SHORTLIST

- **Deal of the Year - Mid Cap**
  CTOS Data Systems [Creator]
  Estia Health [Quadrant Private Equity]
  IMAX China [FountainVest Partners]
  China Media Capital
  National Bulk Handling Corp
  (India Value Fund Advisors)
  Union Bank of Colombo (TPG Capital)

- **Deal of the Year - Large Cap**
  Goodpack (KKR)
  Nanfu Battery (CDH Investments)Sinopac Marketing
  (CICC/Bohai Industrial Investment Fund Management/
  RRJ Capital/Haxia Capital/CITIC Goldstone /Hopu
  Investments)
  Sony Corp – personal computer business
  (Japan Industrial Partners)
  Velocity Frequent Flier Program
  (Affinity Equity Partners)

- **Exit of the Year – IPO**
  Alibaba Group (Silver Lake/Yunfeng Capital/CITIC
  Capital/Boyue Capital/Asia Alternatives/Pavilion
  Capital/Circular Gull)
  Asaleo Care (Pacific Equity Partners)Healthscope
  (The Carlyle Group/TPG Capital)
  JD.com (Tiger Global/Hillhouse Capital Management/
  DST Advisors/Capital Today)
  Nord Anglia Education (Baring Private Equity Asia)

- **Exit of the Year – Mid Cap**
  Dick Smith Holdings (Anchorage Capital Partners)
  Golden Gate (Meekong Capital)
  Yonghui Superstores (Headland Capital Partners)
  Tirumala Milk Products (The Carlyle Group/United
  Cinemas (Advantage Partners)

- **Fundraising of the Year – Venture Capital**
  DCM Ventures China Fund (DCM VIII (DCM)
  GGV Capital V (GGV Capital)
  Morningside China TMT Fund III
  [Morningside Technologies]
  Qiming Venture Partners IV [Qiming Venture Partners]
  Shunwei China Internet Fund II
  (Shunwei Capital Partners)

- **Fundraising of the Year – Mid Cap**
  Kedaara Capital I (Kedaara Capital)
  CDH Fund V (CDH Investments)
  CVC Capital Partners Asia Pacific IV
  (CVC Capital Partners)
  Nanvis Asia Fund VII (Navis Capital Partners)
  Morgan Stanley Private Equity Asia IV
  [Morgan Stanley Private Equity Asia]

- **Fundraising of the Year – Large Cap**
  Orchid Asia VI [Orchid Asia]
  Quadrant Private Equity No.4 [Quadrant Private Equity]
  SSG Capital Partners II (SSG Capital)
  Vision Knight Capital (China) Fund II
  (Vision Knight Capital Partners)

- **Deal of the Year – Venture Capital**
  Flipkart (Tiger Global/Naspers/GIC Private/Morgan
  Stanley Investment Management/DST Global/Ascend
  Partners/Iconic Capital/Sofina)
  LanmiTech NZ (Siemens Venture Capital/KIW1/
  Qiming Venture Partners/Khosla Ventures/Malaysian
  Life Sciences Capital Fund/CIC)
  Moguile [Hopu Investments/Trustbridge Partners/
  Qiming Venture Partners/IDG Capital Partners]
  Snapdeal (IADB/Intel Capital/Bessemer Venture
  Partners/Nexus Venture Partners/Kalaari Capital/
  Saama Capital)
  Youxinpai [Warburg Pincus/Tiger Global]

- **Exit of the Year – Large Cap**
  CSC Pacific Pharmaceutical (Hony Capital/Matahari
  Department Store (CVC Capital Partners)
  Oriental Brewery (Affinity Equity Partners/KKR)
  Peters Ice Cream (Pacific Equity Partners)
  Techpack Solutions (MBK Partners)

- **Firm of the Year**
  Affinity Equity Partners
  CVC Capital Partners
  KKR
  Pacific Equity Partners
  Quadrant Private Equity

- **Operational Value Add Award**
  K.Y Tang [Affinity Equity Partners]
  David Liu & Julian Wolhardt [KKR]
  Gabriel Li (Orchid Asia)
  Chris Hadley (Quadrant Private Equity)
  Shuge Jiao (CDH Investments)

- **Private Equity Professional of the Year**
  K.Y Tang [Affinity Equity Partners]
  David Liu & Julian Wolhardt [KKR]
  Gabriel Li (Orchid Asia)
  Chris Hadley (Quadrant Private Equity)
  Shuge Jiao (CDH Investments)

- **Operational Value Add Award**
  K.Y Tang [Affinity Equity Partners]
  David Liu & Julian Wolhardt [KKR]
  Gabriel Li (Orchid Asia)
  Chris Hadley (Quadrant Private Equity)
  Shuge Jiao (CDH Investments)

- **Firm of the Year**
  Affinity Equity Partners
  CVC Capital Partners
  KKR
  Pacific Equity Partners
  Quadrant Private Equity

- **Firm of the Year**
  Affinity Equity Partners
  CVC Capital Partners
  KKR
  Pacific Equity Partners
  Quadrant Private Equity

- **AVCJ Special Achievement Award**

For any enquiries, please e-mail Tim.Burroughs@incisivemedia.com