AVCJ
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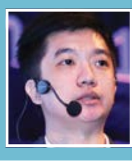
EAST VENTURES

Hian Goh
Founding Partner
NSI VENTURES

Ming Maa
Investment Analyst
SOFTBANK



William Tanuwijaya
Co-Founder and CEO
TOKOPEDIA

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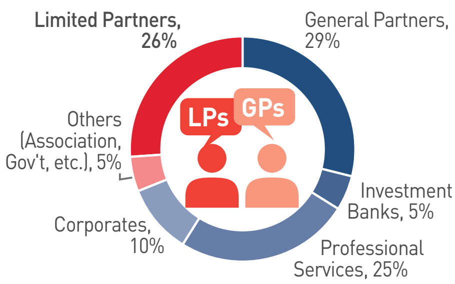
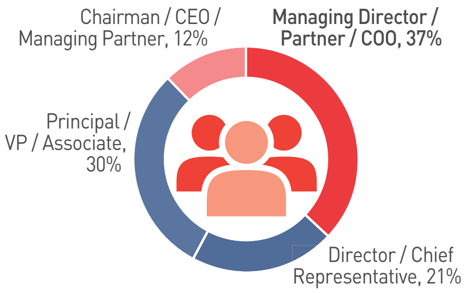
- 30+ speakers
- Over 170 participants from 12 countries and more than 110 companies

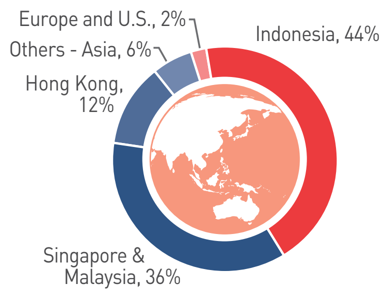
BY TYPE OF COMPANY



BY TITLE



BY COUNTRY



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PE adapts to the new normal

CHINA'S ECONOMY GREW AT ITS SLOWEST pace in 24 years in 2014 with GDP expanding by 7.3%. Most economists regard the current situation as a symptom of a "new normal" as China continues its transition from the world's factory to the world's most attractive nascent consumer market. Indeed, most PE industry professionals envisage no detrimental impact on their pace of investment.

Private equity in China certainly enjoyed a more bountiful 2014 than the economy as a whole. Assets under management blew past the $200 billion mark as Chinese GPs added another $25 billion of fresh capital.

In terms of investment, AVCJ Research has records of 743 deals worth more than $34 billion, a near $14 billion gain on 2013. These data exclude capital that Chinese private equity firms invest outside of China. Cross-border deals amounted to $7 billion in 2014.

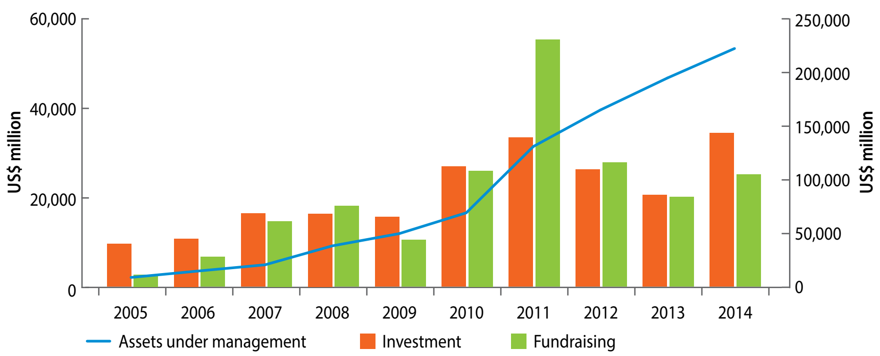
My sense is that Chinese private equity is healthier today than it was even a few years ago and there are plenty of opportunities for investors to target.

- There seems to be less competition from upstart renminbi-denominated funds run by unqualified opportunists. Sure, a few popping up every now and then, but not at the rate that threatens to disrupts the market, as was the case a few years back.
- The Chinese PE industry is slowly building its own ecosystem. There is now not only a healthy mix of international and local funds but also a diversified blend of funds targeting different investment themes from early-stage angel funds to turnaround funds. The country is also spawning its own strain of LPs as insurance companies slowly enter the fray.
- Chinese corporations are also embracing PE and VC as competitors and partners. It is used to be that Chinese companies were either funded by PE or purchase exiting portfolio companies. Now we see companies creating their own venture divisions.
- Exits are on the rise, or at least they are in certain areas. The bumper Alibaba Group IPO is representative of the massive demand for VC investments in the country. The success of the first and second-generations start-up is also spawning a new breed of entrepreneurs looking to do build their own businesses.

These are just a few of the many reasons why Chinese private equity will perform under the new normal. However, as we all know, challenges remain and more will undoubtedly emerge. This is still a comparatively young market.

Allen Lee
Publishing Director
Asian Venture Capital Journal

China PE fundraising and investment



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NEWS

ASIA PACIFIC

CIC's Olivia Ouyang joins OTPP

Ontario Teachers' Pension Plan (OTPP) has hired Olivia Ouyang, formerly managing director and head of emerging markets at China Investment Corp. (CIC), as a Hong Kong-based director of funds and co-investments. Ouyang joined CIC in 2010 and during her time there was responsible for private equity fund, co-investment and direct investments in Europe and emerging markets.

AUSTRALASIA

Australian medical fund backs antibody start-up

Solvanix, an Australian early-stage biotech company that has developed a technology for improving drug stability, has received A$2 million ($1.6 million) in seed funding from the Medical Research Commercialization Fund (MRCF). Solvanix's technology reduces the aggregation of fully human antibodies, which have a detrimental effect on manufacturing and storage.

GREATER CHINA

Yunfeng joins $1.6b deal for drug maker Baiyunshan

Yunfeng Capital and other investors have agreed to invest up to RMB10 billion ($1.6 billion) in Chinese drug maker Guangzhou Baiyushan Pharmaceutical Holdings. Baiyunshan plans to sell as many as 419.5 million new A-shares, at RMB23.84 apiece. Yunfeng will buy RMB500 million worth of shares, while China Life Insurance will invest RMB2.5 billion.

VC-backed group-buying site Meituan raises $700m

Meituan.com, a Chinese group-buying site backed by Alibaba Group and several venture capital firms, has raised $700 million in a new funding round from undisclosed investors. The latest investment values the four-year-old company at $7 billion..

Mobile app analytics firm App Annie raises $55m

App Annie, a mobile app analytics platform that was set up in Beijing but has since expanded

LP warns of potential co-investment bubble

Co-investment could represent the next bubble for global private equity says Erik Hirsch, global CIO for global fund-of-funds Hamilton Lane. He said that while 2014 had been a strong year for private equity fundraising globally – with about $486 billion raised, according to Preqin – it still fell short of record numbers seen in the years preceding the global financial crisis. However, he also noted that the asset class had matured

and the overall picture had become more complicated, with a lot more fundraising data going under the radar.

"We call this shadow fundraising," explained Hirsch, "LPs are now attacking private equity in more than just the traditional ways of going into a fund." Much of this overlooked capital comes from three main areas: separate accounts, where GPs seek to offer tailor-made funds to its largest investors; secondaries, where LPs are directly transacting secondary deals without using a fund-of-funds; and co-investments. The last of these has been driven by a desire among LPs to access the asset class cheaply and in a more targeted way. The problem is that the reality has not always met expectations.

"There is a perception among LPs that co-investing is easy, everybody wants to do it and everyone is trying to do it," said Hirsch. "But co-investing does require a real skill set and I think too many LPs do not have the requisite skillset, or have the resources and the staff to be evaluating transactions."

globally, has raised a Series D round of funding worth $55 million, led by Institutional Venture Partners (IVP). Existing investors Sequoia Capital, Greycroft Partners and IDG Capital Partners also participated. It takes the total funding raised by the company since inception to $94 million.

China creates $6.5b VC fund to support start-ups

China has launched a government-guided venture capital fund worth RMB40 billion ($6.5 billion) to support start-ups in emerging industries. The fund – to be managed by several professional managers based on open tendering process – will target equity investments in early-stage innovative firms. It will also partner with local or leading industry players' corporate arms on certain deals.

Tiger Global backs P2P lending site Dianrong

Tiger Global Management has invested an undisclosed sum in Dianrong.com, a Chinese VC-backed peer-to-peer (P2P) online lending service platform. Dianrong was launched in March 2013 by Soul Htite, co-founder of Lending Club, and Kevin Guo, an intellectual property lawyer.

Alibaba buys majority stake in VC-backed AdChina

Alibaba Group has purchased a controlling stake in AdChina, a Shanghai-based company with an internet advertising platform that helps advertisers promote their brands across different advertising formats and mobile devices. It received three rounds of funding from GSR Ventures, News Corp and Richmond Global Management between 2008 and 2010.

Vision Knight loses Pak-Seng Lai

Pak-Seng Lai, a Hong Kong-based managing partner at Vision Knight Capital, will leave the China-focused private equity firm by the end of this month. Lai, formerly head of Asia at Auda, joined Vision Knight in July last year. AVCJ understands his departure is driven by a desire to relocate to Singapore for family reasons.

CPPIB, Longfor set up JV to invest in Suzhou property

Canada Pension Plan Investment Board (CPPIB) has formed a joint venture with real estate developer Longfor Properties to invest in a mixed-used project in Jiangsu province. CPPIB has put in RMB1.25 billion ($201 million) to develop the project located in Suzhou.

Payment site Aixuedai raises $40m Series A round

Aixuedai, a Chinese online payment platform that finances purchases of consumer electronics, has completed a $40 million Series A round of funding. The platform allows students to purchase smart phones, cameras and computers through installment-based repayment plans.

This announcement appears as a matter of record only. November 2014

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WELLS FARGO

NEWS

SBCVC leads $20m round for education platform

SoftBank China Venture Capital (SBCVC) has led a Series B round of funding worth $20 million for Xuexibao, a Chinese online education platform. Existing investor GSR Ventures also participated. The new capital will primarily be used for product upgrades.

VC-backed 51Talk acquires counterpart 91Waijiao

51Talk.com, a Chinese online English-learning platform backed by several VC investors, has acquired industry peer 91Waijiao.com. In October, 51Talk closed a $55 million Series C led by Sequoia Capital and received $12 million in Series B round led by Shunwei Capital Partners in December 2013.

Cheetah Mobile plans fund to support Taiwan start-ups

Cheetah Mobile, formerly Kingsoft Corporation's security software division, plans to set up a NT$100 million ($3.1 million) fund to invest in Taiwan mobile internet start-ups.

NORTH ASIA

Carlyle promotes Hiroyuki Otsuka to partner

The Carlyle Group has promoted Hiroyuki Otsuka, a member of its Japan buyout team, to partner as part of global round of 59 appointments, including five in Asia. Otsuka, previously a managing director leading coverage of the industrial, auto and transportation sectors, joined Carlyle in 2006 after a four-year stint with Lazard.

Japanese big data start-up raises $15m

Treasure Data - a Silicon Valley-based big data start-up - has raised a $15 million Series B funding round led by Scale Venture Partners with participation from AME Cloud Ventures. Co-founded by Hiro Yoshikawa and Kaz Ota in 2011, Treasure Data offers a cloud-stage service specializing in the collection, storage and analysis .

Japanese 3D printing start-up raises $3.6m

A consortium of venture capital investors has committed JPY400 million ($3.6 million) to JMC, a Japanese casting and 3D printing services firm. Participants include Daiwa Corporate Investment, Energy & Environment Investment, Shizuoka Capital, Yokohama Capital and TNP On The Road Corp.

SoftBank leads $600m round for Kuaidi Dache

SoftBank Group has agreed to lead a $600 million round of investment for Travice, operator and developer of Chinese taxi-booking app Kuadi Dache, with participation from existing backers Alibaba Group and Tiger Global Management. This follows a $700 million round completed in December 2014 for the company's direct competitor, Didi Dache, which received funding from Singapore's Temasek Holdings, DST Global and Tencent Holdings. Uber is also looking to expand in China, having sold a minority stake to Baidu and entered into a strategic partnership with the search giant.

Launched in 2012, the Kuadi app connects prospective passengers with vacant taxis. It combines integrated mapping and third-party payment technology to provide widely accessible booking services to over one million taxis in more than 300 cities in China, including Hong Kong. Its 200 million users can choose from a range of standard and luxury cars, and also offer tips to drivers in order to secure a ride.

The vast majority of taxi bookings made through apps go to Kuadi and Didi. According to consultancy Analysys International, Kuadi had an industry-leading 54.4% market share by cumulative user accounts as of November 2014. The company claims to fulfill one million transportation requests every day.

SOUTH ASIA

Tiger Global leads $100m round for ShopClues

Tiger Global has a led a $100 million Series C round of funding for Clues Network, the US parent of Indian e-commerce platform ShopClues. the round - which values the start-up at $350 million - also included existing investors Helion Venture Partners and Nexus Venture Partners.

CDC commits $48m to India healthcare provider

UK development finance institution (DFI) CDC Group has invested $48 million in Indian multi-specialty healthcare provider Narayana Hrudayalaya Hospitals (NH) in return for a small minority stake. NH operate India's third-largest chain of hospitals with 29 facilities in 17 cities

Multiples makes partial Cholamandalam part

Multiples Alternative Asset Management has made a INR1.9 billion partial exit from Indian non-banking financial company Cholamandalam Investment and Finance Company (CIF). The GP sold about 3.88 million shares at INR 495 apiece. Prior to the transaction, it held a total 6.7 million shares, representing 4.67% of the company.

TA buys stake in SaaS provider RateGain

TA Associates has taken a minority stake in RateGain, an India-based software-as-a-service (SaaS) provider that works with clients in the hospitality and travel sector. The size of the investment was not disclosed but local media reports put it at INR2-3 billion ($32-48 million). TA is the company's first institutional investor.

IVFC completes partial exit from Mahindra CIE

India Value Fund Advisors (IVFA) has completed a partial exit from Mahindra CIE Automotive, selling a third of its stake for about INR1.3 billion ($21 million). IVFA sold about 3.6 million shares at INR225.7 a share on the Bombay Stock Exchange, and another 2.2 million shares on the National Stock Exchange at INR227.29.

VC-backed Zomato acquires US-based Urbanspoon

Zomato, a VC-backed restaurant search service based in India, has acquired US-based counterpart Urbanspoon as it seeks to accelerate growth in overseas markets. The purchase accounted for the bulk of Zomato's $60 million Series E round, which was provided by Vy Capital and existing backers Info Edge and Sequoia Capital in November 2014. The deal will give Zomato a foothold in Australia, the US, and Canada.

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The incremental approach

Deal-by-deal fundraising is on the rise in Asia, driven by the difficulties less experienced GPs face when raising a blind pool and LPs' willingness to go direct. It's a great strategy, provided you have momentum

SANJAY CHAKRABARTY WAS A MAN IN demand. A couple of months earlier he had worked with Partners Group on the buyout of India-based business process outsourcing (BPO) firm CSS Corp. Now he had another BPO deal lined up – Aditya Birla Group was willing to offload its Minacs subsidiary – and various parties were interested in getting a piece of it.

There was no fund behind these transactions, or at least not at first. Chakrabarty departed US-based Columbia Capital at the end of 2013 and the deals he has participated in over the past two years were channeled through Capital Square Partners, an investment holding company. AVCJ understands that the firm has applied for a fund management license in Singapore and a vehicle will be launched in 2015.

Around the turn of 2014, when Minacs was in play, Capital Square was working on a deal-by-deal basis; it sourced interesting investments and was able to contribute some capital, but required partners to put in the rest.

CX Partners ended up leading the Minacs transaction. According to a source familiar with the situation, this was because at least one group would only consider the deal as a co-investment alongside a portfolio GP. A number of other LPs came in as well, including Hermes GPE, which participated directly. It was familiar with Capital Square from having been shown other deals.

"Our focus and ability is on evaluating transactions and if it happens that a good deal comes through a fund-less sponsor then we consider it," says Sunny Chu, investment managers at Hermes. "The key issue with investing deal by deal is to ensure that the GP is well funded, stable and well aligned. We evaluate many such opportunities every year but very few go far in our process."

No standardization

The Minacs situation captures a number of the dynamics often found at work in deal-by-deal fundraising: a GP that has no active blind pool vehicle and is reaching out to LPs not only for support on an investment, but also with a view to a future fundraise; and LPs looking for ways to participate, in part driven by concerns about minimizing the fee burden.

In this particular field of private equity, however, attempts to discern any kind of standardized model quickly falter. Data supplied by Preqin indicate there are currently 13 GPs in Asia operating on a deal-by-deal basis, compared to 59 in Europe and 97 in North America. While this approach is more established in the Western markets than in Asia, the number is almost certainly an under-projection.

A deal-by-deal strategy could sit anywhere along a sliding scale with shopping around investments in an opportunistic fashion at one end and something resembling traditional blind pools at the other. Where a particular manager lies on this scale depends on a combination of factors, and some managers argue they don't belong on it at all.

What everyone might agree on is that deal-by-deal is attractive in theory but difficult in practice, with challenges ranging from execution to managing LP expectations.

"In an ideal world you would have an existing revenue-generating platform and the deal-by-deal model is incremental to it," says Nirav Kachalia, managing director at The Yaro Group, who has experience working with groups that pursue such strategies. "But if you don't have a strong track record and a robust stable of investors, it's difficult. For the stability of one's team, one's mindset, and an ability to execute, one needs a level of commitment at some point."

On the one hand the strategy can offer huge flexibility and immediate carried interest on exit from a particular asset – catnip to a pure dealmaker who does not want the heavier fiduciary responsibility that comes with fund management. On the other, its unpredictable nature. If a GP that identifies a strong deal but cannot get support from investors it could suffer serious reputational damage.

Choice or necessity?

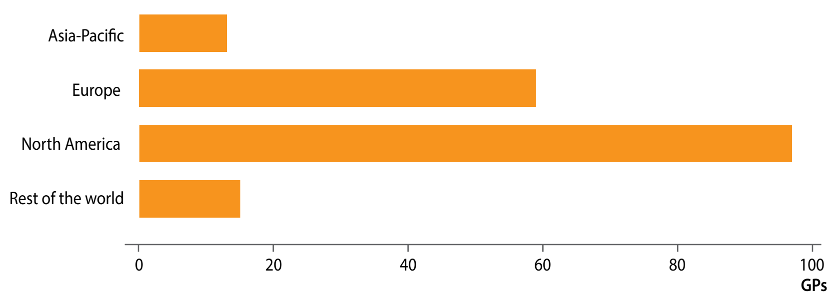
Opinion is divided as to whether deal-by-deal fundraising is on the rise in Asia and the strength of the various forces behind it. There is more money coming into private equity, particularly from family offices that are eschewing blind pool funds in favor of direct exposure to deals. Equally, GPs in Asia outside of the big name firms are finding it harder to raise capital.

"I often get people come in with an interesting strategy, but it's a challenging fundraising environment so we try to give pragmatic advice," says Dean Collins, a partner at Dechert. "It is a case of, 'You tell me you have great contacts and great deals, so go and get a deal done and you will find it easier to raise a fund on the back of that.'"

Deal-by-deal therefore comes into play when fundraising has been aborted or not even reached the PPM stage.

When private equity fervor gripped Indonesia circa 2011, a number of local groups either looked into raising funds, but few got traction. For example, Fairways Capital, which did not launch a vehicle in 2011, now describes itself as an investment holding company, making

GPs working on a deal-by-deal basis, January 2015



Source: Preqin

investments on behalf of clients and offering corporate advisory services.

Similarly, just in the past week, AVCJ has been made aware of two Indonesia-focused executives that have left their respective firms and are now reaching out to fund-of-funds with a view to completing personally-developed transactions on a deal-by-deal basis.

In this context, Crescent Point stands out as a GP that through choice rather than necessity declined to raise a blind pool for the best part of a decade. The firm in part owes this distinction to its flying start.

Founded in 2002 on the back of opportunities created by foreign investors exiting Asia and connections with family offices in the Middle East, Crescent Point's first deal was Air Asia, which delivered a very strong return. An equally successful second investment gave the firm sufficient balance sheet firepower to pay overheads and participate in deals, and willing partners in these families.

their businesses. Notably, there is muted enthusiasm for pledge funds in Asia. These feature around the mid-point of the sliding scale, offering GPs a degree of certainty because there are some pre-negotiated terms with LPs as to how much capital will be committed by LPs. In certain cases, a management fee is also agreed before any deal is done and, while LPs have discretion, there may be a limit to the number of times they can turn down investments.

Much as the Crescent Point investors wanted to make single commitments to a string of deals, the trade-off between manager quality and resources can be a stumbling block for pledge funds. If an LP isn't confident enough in a GP to support a blind pool – perhaps because the team doesn't have a lot of experience – then is it really worth the effort to assess each deal individually?

"The majority of LPs don't like pledge funds," says Javad Movsoumov, executive director with UBS' private funds group. "They would rather do due diligence on a fund and then commit to a blind pool. If there is a pledge fund, every time a GP comes to them with a deal they have to evaluate it. A large number of LPs wouldn't have the capacity to process these direct deals."

> "We had several deals we wanted to do over a period of six months, so we raised capital on the back of that. We have a shorter investment horizon than a traditional fund and a narrower investment mandate"
>
> – Heath Zarin

A fund followed but the firm found that it could get more strategic value out of its family office network – most groups have their own operating businesses – so it stuck with the deal-by-deal approach. Having started with approximately 15 families, Crescent Point now works with around 40 from Asia, North America, Europe and the Middle East.

The firm has always been wary of large pools of capital because there is often pressure to invest for the sake of investing, according to one source. It wants to be patient and opportunistic.

A hybrid strategy

Nevertheless, Crescent Point has recently shifted to a hybrid model, with a dedicated pool of third-party capital on top of the balance sheet contribution and whatever is syndicated among the families. There are two reasons for this. First, it allows the firm to move quickly on deals and have the capacity to pursue larger transactions or several investments at once. Second, a handful of investors said they would rather make a single, larger allocation with the option to top up on particular deals.

Such attitudes among LPs have a broader impact on how deal-by-deal investors structure

Fees can also be an issue. Chu says that Hermes prefers GPs to seek alignment by focusing more on carried interest than management fees, but the quality of the transaction is the primary consideration and if that is validated the firm will listen to proposals from managers that reflect a small team trying to fund appropriate deal and team expenses. Others take a harder line.

"Unless the circumstances are extraordinary, we want to do co-investments on a no fee, no carry basis and it's hard to see how that works for somebody doing deal-by-deal," says Doug Coulter, a partner at LGT Capital Partners. "We might be able to live with some carry or carry above a hurdle, but the fees would be very hard for us."

According to Lorna Chen, a partner at Shearman & Sterling, some GPs in China are offering deals to LPs in return for a flat "finder's fee" intended to cover costs during the course of the investment and zero carried interest. This is done to build goodwill ahead of a blind pool fundraise. Several industry participants claim to have seen management fees as high as 2%, but only on drawn down capital, and then 20% carried interest; others put the typical rate at a 1% and 10%.

Between the lines

A number of GPs have managed to carve niches in the space between those that are able to raise blind pools and those who turn up with a blank term sheet. They tend to be relatively young, often seeing deal-by-deal as a stepping stone to a traditional fund structure. And then the vehicles they are raising are distinct in the high level of transparency.

Southeast Asia-focused Hera Capital, for example, is said to raise funds on more or less an annual basis, with LPs given a clear idea of which transactions will be targeted.

Heath Zarin, formerly head of principal investments in Asia for HSBC, spun-out in 2013 to form EmergeVest and has since raised capital from a mixture of investors for two specific themes: Asia special situations (which formed Zarin's remit at HSBC) and UK control deals. It has completed five deals with around $100 million committed and has a further $100 million available.

"We are not a blind pool in the conventional sense," Zarin says. "One would normally put together a PPM to raise a large vehicle to invest over multiple years. At the time, we had several deals we wanted to do over a period of six months, so we raised capital on the back of that. We have a shorter investment horizon than a traditional fund and a narrower investment mandate."

Knowing exactly what the first few deals would be and identifying the specific nature of others to follow removes or substantially reduces blind pool risk. In this sense it is a good fit with the needs of family offices that are increasingly seen as the natural partners for deal-by-deal shops in Asia.

This is in some respects a global phenomenon. One version of events is that family offices became uncomfortable with blind pools in the wake of the global financial crisis and now prioritize direct transactions or fund structures with a clear pipeline of assets. Another is that such groups are entrepreneurial by nature and therefore prefer to direct exposure and hands-on involvement.

"There are large family offices that have done fund investments in private equity but over time they have accumulated enough knowledge to say, 'We could do it ourselves.' They can cut out the middle man and the blind pool, so instead of paying 2/20 they will pay a budgeted management fee for their internal team and the deal team will get less than 20% carry. They get to look at every deal and say yes or no," says David Kirby, founder and managing director of Kirby Capital Advisors.

Kirby works with about 30 family offices in the US, each of which has at least $1 billion in investible assets and a sweet spot of $10-30 million per investment. He is currently sourcing investors to participate in deals alongside GTI Capital, an India-based fund-less sponsor. The firm's managing partners include Gaurav Dalmia, a member of the family behind local conglomerate Dalmia Group.

Family offices are also emerging as a powerful force within Southeast Asia. Former 3i Group executive Mark Thornton was working on a deal-by-deal basis in Indonesia until last year when he was retained by Metdist – a trading company owned by the Bagri family, which previously held a stake in the London Metals Exchange – to advise on public and private equity investments across the region. Medtist has no interest in blind pools; it is looking for direct deals of $2-5 million.

"When I came to Asia in 2000 private equity was in its infancy. Fast forward 15 years and it feels like the new wave of capital in the market is the family office money," Thornton says. "There is a lot of family office money but it's difficult to access because you need to have a relationship with someone within the family office to have that trust factor."

Relationships matter

The private banking units of international banks will consider deals for syndication among their high net worth clients, but these transactions tend to fall into one of two categories: global private equity firms that have no problem raising blind pool money but allocate a portion of a deal to a private bank as a marketing exercise to attract more fund investors; and pre-IPO rounds for technology companies, which tend to come via investment banks rather than GPs.

Austin Mok, who works in private banking for a large financial institution in Hong Kong, says that many smaller sponsors approach him with deals but it is difficult for them to get through the bank's due diligence process.

Penetrating the family office community directly, meanwhile, is in an exercise in patience and persistence, although opening one door can open others. Yaro Group's Kachalia admits that the most fruitful networking comes from within the community itself. A GP may have a geographically diversified LP base, but there are often concentrated pockets of investors in each continent – a result of referrals between families.

The reality is that few fund-less groups in Asia are able to syndicate a deal among a collection of willing family investors. The status quo may gradually shift and a number of industry participants say deal-by-deal is here to stay: With LPs wanting to have fewer, larger relationships, money is gravitating towards the established firms; family offices are becoming more comfortable with direct deals, so they will seek to interact with the smaller GPs – that are having trouble raising capital – on this basis.

The counterargument is that relatively few family groups have the experience to go direct and, if any kind of mass movement in the market is not accompanied by additions to internal capabilities, investments will go wrong. "The merit of having a blind pool is that you leave the investment decision to someone else," says Chen of Shearman & Sterling. "This is an educational period for some LPs in Asia where they understand that there are professionals there that can do their job."

Winning family office clients on a deal-by-deal basis and then retaining them for the long-term ultimately hinges on offering something they can't get elsewhere. "In order to get started you need to have proprietary deal flow," says EmergeVest's Zarin. "If you don't have an edge on a deal or a series of investment opportunities, this is not the way to build a PE business."

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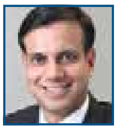
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Road war

High-powered alliances are forming in China's mobile taxi-booking space around Kuaidi Dache and Didi Dache as part the ongoing battle between the big internet companies. What does it mean for VC investors?

VENTURE CAPITAL INVESTORS COMPARE the current battle in China's mobile taxi-booking space to a skirmish in the 1950-1953 Korean War. There was a conflict between the north and south – see Alibaba Group and Tencent Holdings – with other foreign powers lining up in support of the two combatants. The likes of Japan's SoftBank Corp. and Singapore's Temasek Holdings are playing the US and Soviet Union roles.

Kuaidi Dache, a taxi-booking app backed by Alibaba, strengthened its flank last week with a $600 million investment led by Softbank and also featuring existing backer Tiger Global Management. This followed a $700 million round completed in December for Tencent-backed Didi Dache, which won support from Temasek, DST Global, GGV Capital and other investors.

A third giant, search engine operator Baidu, jumped into the market last month by investing in US-based car-sharing platform Uber and agreeing to help the firm expand in China.

While Uber's traditional target market is high-end customers who request private cars, Didi and Kuaidi are primarily digital intermediaries for taxi companies. However, these delineations are becoming blurred as companies make a play for one another's turf.

"Alibaba, Tencent and Baidu aren't competing for profits generated by taxi-booking apps. The apps are meaningful in terms of the expansion of their payment systems and mapping technology used by the vehicles," says Hurst Lin, co-founder of DCM China. "The taxi app industry is a mess now because the original business model has been nixed. I doubt the demand for the taxi-booking apps is as high as we are seeing."

As a result of Kuaidi's alliance with Alibaba, passengers can make payments through Alipay. The Didi-Tencent connection allows users to book taxies within instant-messaging app WeChat and pay through Tenpay. The capital flooding into the space is being used to provide subsidies – all part of the wider struggle for market share. Passengers like low-cost rides but it remains to be seen whether or not the business is sustainable once the subsidies come to an end.

Differentiating factors

According to a consultancy Analysys International, 154 million people in China used a taxi-booking app in the third quarter this year, with the vast majority of orders going to Kuaidi and Didi. The companies focus on regulated and licensed cabs, but because taxi fees are charged by the meter, there isn't much room for the apps to earn commissions. Later last year, Kuaidi and Didi introduced private car booking services – Yi Hao Zhuan Che and Didi Black – that offer rides in Audi and Mercedes-Benz vehicles to high-end customers. It puts them in direct competition with Uber and local incumbent Yongche.

"The idea of ride-hailing app is to use mobile internet as an intermediary to connect all drivers, a function traditionally performed by car leasing firms," says Jixun Foo, a partner at GGV Capital. "With the new technology, anyone can provide services without the trouble of going through a car leasing firm. That is why ride-hailing platforms are so powerful – they optimize supply and empower demand."

> "The taxi app industry is a mess because the original business model has been nixed" – Hurst Lin

In this context, online platforms could differentiate themselves by working to earn customers' trust. While ride-hailing apps make transportation systems more efficient, they also raise safety issues seen in other developing countries. Two weeks ago, the Ministry of Transport issued a ban on private cars from participating in ride-hailing apps in order to protect users. Only licensed taxies are able to use this technology to connect with customers.

This ruling has apparently proved problematic for Didi, Kuaidi, Uber and Yongche. They all operate under a zero-fleet model and in order to provide premium services, they usually form partnerships with asset-heavy car rental services. It is unclear how many drivers employed by these companies are operating without licenses.

"The regulator has taken a strong position against these services in part because of pressure coming from the established taxi industry. They have to protect the licensees," says Raymond Wang, managing partner at Beijing-based law firm Anli Partners. "The taxi business is quite a monopolized market. When there are too many private cars on the streets taking their business, of course they are unhappy."

Venture capital investors offer the same view, noting that the local governments will be biased towards taxi-leasing companies, which usually are state-owned enterprises (SOEs). In the long term, however, the balance is likely to change.

"The Chinese government will embrace the changes facilitated by online technology. It will be a similar process to online video sites, which emerged in 2008 to 2009. Now online video channels are been properly regulated and many of them are licensed," GGV's Foo says.

Local needs

On the other hand, the ruling may encourage ride-hailing apps to cooperate with large fleet rental operators, such as eHi Car Services and China Auto Services. EHi has already invested $25 million in Kuaidi and has formed a cooperative agreement with the company whereby its premium car services will be made available through the Kuadi platform.

"The ruling is very favorable for car-rental companies like eHi. When Didi or Kuaidi needs to use licensed rental cars to provide premium services, eHi is the largest player in it," says J.P. Gan, managing partner at Qiming Venture Partners, which is an investor at eHi.

At the same time, he does not expect mobile ride-hailing apps to expand their business by forming their own fleets because this would mean abandoning the asset-light model. Rather, expansion will take the form of similar services in related segments. Ultimately, these companies want to become online transportation platforms that carry not only people but packages as well. It is difficult to pick a long-term winner on this basis, although several industry participants predict Uber's eventual demise in China.

"I don't think Uber has any chance in China," says one VC investor, who asked not to be named. "You need to understand local transportation needs. Payment systems are one example. Penetration of credit cards – usually adopted by Uber – is very low in China. They start from high-end service and it's very difficult to expand into the already competitive mass market and create a network effect."

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ChrysCapital doubles it money on ING Vysya

IN NOVEMBER IT WAS REVEALED THAT Kotak Mahindra Bank - India's fourth largest private lender – would acquire its smaller rival, Bangalore-based retail bank ING Vysya, in an all-stock deal at a valuation of $2.4 billion. The transaction has received shareholder approval and is now awaiting the green light from regulators, which is expected to come later this year.

This is the backdrop to ChrysCapital Partners' decision last week to sell down its 4.5% stake in ING Vysya for $137 million via a series of bulk trades on Bombay Stock Exchange and National Stock Exchange over a two-day period. The PE acquired its interest in the bank nearly four years ago for $69 million.

"We believe Kotak will get to enjoy the benefit of the overall growth in the industry and within the bank itself," explains Ashley Menezes, managing director at ChrysCapital. "However, we think Kotak is fairly valued, so we don't expect the stock will be very accretive, so that is some of the reasoning behind the exit."

This is the second time ChrysCapital has made an exit. ING Vysya was formed in 2002 after the Netherlands-based ING Group acquired a majority stake in India's Vysya Bank. The GP invested an undisclosed amount across two transactions in 2004 and 2005, acquiring a 5% stake which it later exited for more than $28 million in 2009. Despite the economic downturn in India, ChrysCapital decided to return two years later.


ING Vysya: Banking on growth

"The bank had been consolidating its position in the industry, and while the overall environment in India hadn't been great, it was one of the better-run banks," says Menezes. "So to some extent it has been weathering the storm over the last couple of years.

One of the ways ING Vysa managed to do this was by focusing on the quality of its assets and the sectors it served, and minimizing its risks accordingly. The bank, which currently has 547 branches, 28 satellite offices and 470 ATMs nationwide, reported a profit of INR3.24 billion ($52.5 million) for the six-month period ended September 2014. This is less than the INR3.51 billion for the same period last year but still more than double the 2011 figure.

Overall, the investment generated a 2x money multiple, representing an IRR of 29% in dollar terms., or more if taken in rupee terms. This is ChrysCapital's seventh successful exit from a financial services company – others include Centurion Bank of Punjab, Mahindra & Mahindra Financial Services, UTI Bank, Yes Bank and several Shriram Group entities – and Menezes expects to see many more opportunities in the sector.

"The broad thesis is that the banking sector India is still highly underpenetrated compared to both developed nations and other emerging markets," he says. "If we look at the longer-term trend, banking sector growth has been around twice that of GDP, and that will continue as the environment in India improves."

Macro headwinds weigh on Peoplebank exit

NOT EVERY INVESTMENT WORKS OUT as planned – often for reasons beyond the investor's control. Navis Capital Partners recently sold Australia-based IT and specialist recruiting firm Peoplebank to Japan's Recruit Holdings for A$68.6 million ($56.6 million). The GP has taken out more or less what it put into the company seven years ago.

Navis invested A$60 million in Peoplebank before the global financial crisis in 2007 through a A$50 million equity subscription and a A$10 million placement, acquiring a 77% stake in the business. The capital went towards the $100 million takeover of industry rival Ambit Group in order to create Australia's largest IT recruiter.

At that time, the PE firm was optimistic the long-term growth prospects of the business. The Australian government had launched a slew of programs to promote internet-based services and Peoplebank's revenues were always significantly driven by IT-focused capital expenditure initiatives from large corporations and government. The company had formed exclusive business relationships with market leaders across banking, telecom and airlines, and Navis was looking to build on these. But then the capex initiatives slumped.

"We faced two macro challenges. One followed immediately as a result of the financial crisis – the slowdown of major capex initiatives – that hit to IT recruitment needs. The second was the gradual disintermediation through technology that created margin erosion across the industry," says Rodney Muse, managing partner at Navis.


Peoplebank: Expansion plan

The PE firm still worked to deliver growth. In 2009, it teamed up with Leon Lau, Peoplebank's founder and managing director to acquire the remaining 23% of the company for A$13.4 million through a management buyout. Two years later, the company expanded into Singapore, Hong Kong and Kuala Lumpur, and Asia now accounts for about 20% of group profit.

"Our Asia expansion is a significant mitigation to the macro headwinds but not sufficient enough to change it from a return of capital to a profitable exit," Muse says. Currency shifts have also had an impact.

Given Peoplebank's strong position in its market niche, a number of strategic investors had expressed an interest in the business over the years, including Recruit Holdings, one of the largest staffing agencies globally.

"When management teams from Peoplebank and Recruit Holdings interacted, there was an excellent rapport and obvious synergies in terms of complementary capabilities, scale and access to international markets. Ultimately when it came to decide to exit or not, we thought that Recruit Holdings paid a fair price for the business and it's a very logical exit for us," Muse says.

The acquisition of Peoplebank is part of a broader expansion strategy through which Recruit Holdings wants to become the world's leading integrated HR service provider by 2020.

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Scanning the horizon

Primagest is a long-standing leader in Japan's document-scanning industry, but it faces challenges in terms of a transition in leadership and staying relevant as technology evolves. J-Star is providing support

DESPITE ITS REPUTATION AS ONE OF THE most technologically advanced countries in the developed world, Japan is a society that still prefers to work with paper when doing business – whether it's recording data, writing out applications, or for business communications.

Statistics released by Pulp & Paper International (PPI) show that in 2013 Japan was the second largest per capita consumer of paper in the world after the US at 215 kilograms. Meanwhile, the Japan Paper Association reveals that of the 14.6 million tons of paper produced in the country for domestic use this year, 8.6 million tons went into printing and communication.

Where there is a wealth of information being recorded and transmitted on paper, there is often a need for that information to be converted to data – and to that end companies like Japan's Primagest provide a vital service. For years, Primagest's primary business has been the design and construction of high-speed scanners, plus accompanying optical character recognition (OCR) and intelligent character recognition (ICR) software, needed to perform this role.

"Japan is a very original-heavy country, it is really a cultural thing," says Yuki Kashiyama, an operating principle with Japanese mid-market PE firm J-Star, which backed the company in 2013. "Many customer-facing business processes are still centered around paper and associated processing is executed with sequential paper handlings, which inherent inefficiencies and risks around privacy protection."

Primagest has been filling this gap, in one form or another, for 45 years. The company's history can be traced back to 1968 when it was established as Recognition Equipment Incorporated – it was one of first companies to sell large-sized OCR systems for converting printed information into machine-encoded text.

Today, in addition to selling software and hardware, much of the company's revenue now comes from sysyem construction and its business process outsourcing (BPO) services; work essential to paperwork-laden organizations including financial institutions, hospitals, and local governments. Often its clients will have many paper items such as application forms or tax returns that are outsourced to Primagest for storage and processing.

"The competitive advantage of Primagest is the ability to provide customized solution in image processing operations for its clients," explains Primagest CEO Kiyohiro Miisho. "The company can provide solutions for customers to process documents internally, and also outsourcing services."

J-Star became acquainted with Primagest by way of its connection to venture capital firm Jafco – J-Star's founding members comprised Jafco's former buyout team – which invested in the company in 2002 when it backed a $82.5 million MBO. At the time the firm traded as BancTec Japan, a subsidiary of Texas-based BPO provider BancTec, which itself was backed by New York buyout shop Welsh, Carson, Anderson & Stowe from 1999.

Jafco's carve-out was eventually followed by the company listing on JASDAQ in 2006 before it went private once again in 2009 via a second MBO, led by Miisho and backed by CMC Capital. Soon after that it changed its name to Primagest (Prime Image Est.).

Four years later the company was looking for another investor so that its founder, who led the 2002 spin-out, could exit the business. Levering their relationship via Jafco, J-Star and Primagest were able to reach an agreement which saw the GP acquire a majority stake in a deal valuing the business at $100 million. Kashiyama says the investment ticked all the relevant boxes.

"As a niche leader it fits well within J-Star's investment strategy," he explains. "It is a leading player in the image solutions business. Not only that, but the company's unique and strong market position means it also has a strong and direct customer base."

The size of the investment – made through J-Star No. 2, a JPY20.4 billion vehicle that reached a final close in July 2013 – was not disclosed but the first tranche, which took place in June of the same year, saw J-Star buy an initial 34.7% stake for JPY498 million ($5 million). The company is now halfway through its anticipated three-year holding period with J-Star.

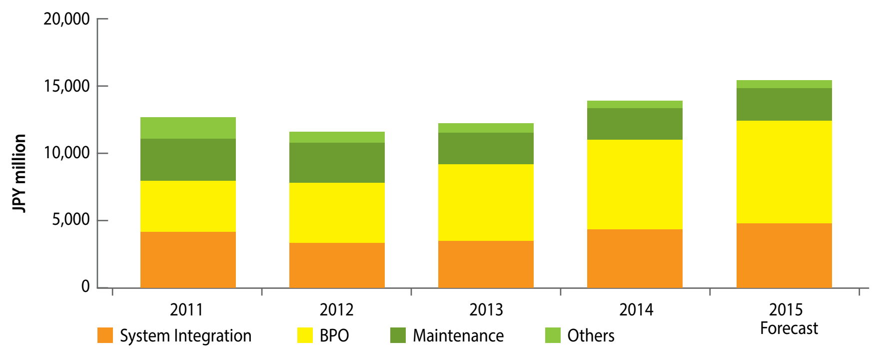
Shifting focus

The first step upon closing the investment was to get the Primagest's finances in order. Following the second MBO, Nomura had helped re-finance the company through a combination of loans and preferred stock which allowed the company's management to keep the majority of their shares, but J-Star felt the terms of the debt were not conducive to Primagest's future growth plans and there was a need to transition owenrship.

"The size of the debt was too big and the preferred stock had a lot of strict covenant clauses," says Kashiyama. "The finances were inhibiting the business strategy."

After getting the finances in order, the GP's next move was to concentrate the development strategy on four key areas: transitioning the business beyond its current leadership; maintaining a steady cash flow by strengthening the BPO business; insulating the company

Primagest's sales by category



Source: Primagest

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against the anticipated drop in demand for original scanning services; and seeking to tap new markets by eventually going overseas.

The first hurdle was to plan for the succession of the company's leadership. Miisho – who joined the company in 1976 and was previously head of Japan for BancTec – is one of six executive directors who had led the company since the spin-out from its US parent. Five of the six have retired so far and the others looking to step down soon. According to Kashiyama, this transition has been one of the bigger challenges of the investment.

"The founders are all very accomplished businessmen, so in a way it would be good to keep them," he says. "Much of the company's culture comes from Mr. Miisho, which means there is a gap in terms of transitioning. It is not simply a matter of the directors leaving and having somebody take over – the company is not ready for transition."

To ease the process, J-Star has been adding to the senior management with a view to bringing through individuals who will eventually take over from Miisho and his colleagues. Rather than sourcing outside talent, the private equity firm is tapping Primagest's own talent pool and promoting from within.

"So the company had a reshuffle within the organization, assigning junior management to more senior positions – such as moving up a division head up to lead the BPO unit, which is the fastest growing of the business," says Kashiyama.

By promoting people who already know the business well the company has been able to maintain a sense of continuity. Meanwhile, the J-Star's helped bring renewed focus to Primagest's BPO services, which involves placing more emphasis on providing an end-to-end data solution.

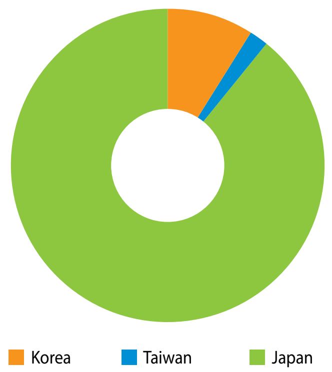
The company's advanced BPO and system integration services are a key differentiating factor from its competitors, such as Fuji Xerox, Toshiba and Kodak. Currently, Primagest has 31 BPO centers in Japan with 147 scanners processing an average 7.5 million documents a day on aggregate. In addition to this it has three data entry centers located in the cities of Shanghai, Dalian and Benxi on China's eastern seaboard. J-Star wants to see this grow.

"J-star has been providing more hands-on support than other financial backers," says Miisho. "This participation has helped us to re-think the status quo and break through some conservative preconceptions about the business."

At the time of investment, Primagest's BPO service contributed around 29% of its JPY12.7 billion in sales. For 2015 it is forecast to account for 49% of a projected JPY15.4 billion in sales; the rest comprises maintenance services and hardware system integration services.

Furthermore, by focusing on the BPO offering, the company is able to generate more stable revenue through multi-year contracts with it clients. Primagest already has a number of high-profile names on its roster, among them All Nippon Airways, Prudential Life Insurance, Nomura, Mizuho Bank, and Sumitomo Mitsui Trust Bank. Kashiyama points out that once data-handling is out-sourced, clients are often unlikely to want to bring that function back in-house or change service providers.

Total shipments of Primagest's flagship scanner hardware



Source: Primagest

> "Much of the company's culture comes from Mr. Miisho, which means there is a gap in terms of transitioning"
>
> – Yuki Kashiyama

Future proofing

Another reason to move to BPO services is because, in the long-term, demand for paper-handling services is expected to decline as companies and institutions inevitably become more digitized and move handling their data through things like mobile applications. Primagest's BPO services are a strong platform from which it can diversify into more data-driven solutions aside from paper handling. Fortunately however, this trend is occurring at a much slower pace than anticipated.

"The paper handling figures in Japan are decreasing, though they are not decreasing as drastically as we feared," says Kashiyama. "But nobody knows when that time will come when the company needs to transform its business in Japan completely."

Meanwhile, he expects the eventual tailing off in demand for paper-handling services in Japan to be counterbalanced by business in emerging economies, where companies' reliance on paper-based applications and record-keeping will be stronger for longer. This is the thinking behind Primagest's decision to expand overseas. At the time of investment, the company already had some international business overseas in terms hardware sales – Korea and Taiwan account for around 11% of sales to date – and operations with data entry centers in China. J-Star is pushing this initiative further.

"Currently, Primagest is in the process of developing its oversea business through partnerships that offer access to end users and present the opportunity to grow together to provide services including maintenance," says Miisho.

To this end, a new overseas business unit has been established within the company to focus on regional expansion, specifically in Indonesia, India, and Singapore. So far the unit is small, with four people responsible for covering Asia, one of whom is a professional hired from outside the company with experience in Southeast Asia's financial services sector.

"Their primary function is to find partners in each country so we can offer exactly the same service to customers in those countries," says Kashiyama. "The focus is not only on selling hardware from Japan, but also finding people who can understand our whole solution."

This overseas initiative is still in its nascent stages but both Miisho and Kayashima are confident that Primagest's unique combination of hardware and the workflow systems can provide a unique, cost-competitive solution to international customers, particularly in areas such as financial services.

Looking to the next 18 months, Kashiyama adds that there is still plenty of room to support the company's growth, not only in BPO and overseas operations but also through inorganic expansion. "Since we have invested we have been looking at a lot of candidates for a potential roll-up and if the there is an opportunity J-star will put in extra capital for that," he says.

In terms of exit, a trade sale and a public-listing are realistic options. In particular, the company could be an attractive target for a big data firm looking to gain access to Primagest's extensive client roster.