Asia's Private Equity News Source

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EDITOR'S VIEWPOINT

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King content

YOUKU TUDOU RECENTLY ANNOUNCED a deal with Paramount Pictures that will see movie franchises such as Shrek, Star Trek and Mission: Impossible made available to the Chinese online video platform's subscription services. Alibaba Group had already gone one step further. Its Ali Pictures affiliate was a direct investor in the most recent Mission: Impossible release and as part of the deal received certain rights to publish the movie digitally and theatrically in China.

If Alibaba gets its way and takes full ownership of Youku Tudou, it can sign content deals with the likes of Paramount across multiple distribution channels, reducing cost-per-user and giving it a wide reach. The proposed acquisition would allow Chengwei Ventures and GGV Capital to fully exit their positions in Youku Tudou, but it is of significance to a broader swath of investors – indeed to almost anyone active in technology, media and telecom.

It pays in China to keep an eye on the machinations of the large internet companies, as one ambitious act of organic or inorganic expansion can redefine the opportunities in and around a market segment. Alibaba's move for Youku Tudou may even prompt countermoves by Tencent Holdings and Wanda Group, which also look to content as a means of monetizing users and bringing in advertisers.

Alibaba has stressed that it wants to leverage rising demand for entertainment content and services, with online digital revenue in China expected to grow from $4 billion in 2014 to $14 billion by 2018. The company has launched Tmall Box Office, a subscription service along the lines of Netflix, and created Ali Pictures, which has production and distribution agreements with a string of local TV stations.

Youku Tudou seems to be a good fit. The company has 500 million unique monthly users, an increasing proportion of whom access its services via mobile devices, but the business has yet to turn a profit. While revenue rose 121% between 2012 and 2014, content costs increased 153% and bandwidth costs jumped by 75%. Subscription revenue is rising, but is this happening fast enough?

Asked by an analyst to share his expectations for Alibaba's entertainment business three years from now – assuming the Youku Tudou deal goes through – Joe Tsai, vice chairman of Alibaba, described a multi-screen strategy: Users will see shorter, more user-generated content on their mobile and computer screens, whereas in the lounge the big screen TV will feature premium-produced content.

This vision will not just pay for itself through lower-cost-per-user content and access to a wider user base. Business customers that rely on the Alibaba ecosystem to promote their brands can benefit from better-targeted marketing solutions thanks to a deeper understanding of users achieved through the integration of entertainment and e-commerce data.

The companies have already tried mapping user activity on Taobao against that on Youku Tudou and tested a shop-while-you-watch platform through which viewers can buy products they see in shows. There is also interest in giving advertisers access to Youku Tudou's professionally-generated content channels where video bloggers build up followings for their output on topics such as food or sport.

The unifying element is youth: Alibaba wants to engage with a young consumer base that is increasingly reliant on mobile devices yet increasingly resistant to traditional forms of advertising and content consumption. It remains to be seen which of the internet giants can do this most effectively and whether there is space for multiple players covering the entire media value chain from content generation to distribution to payment.

Alibaba, Tencent and Wanda have their own strategies but they won't have it all their own way – rivals are trying to carve out their own dominions within or alongside the ecosystems being developed. While LeTV has gone from streaming to licensing and production to smart devices, others have a narrower focus, creating production ventures that could ultimately supply content to the big platforms.

Suning Commerce is perhaps the most interesting of all. The mainly offline electronics retailer teamed up with Hony Capital to buy control of PPTV, driven by a desire to combine content and e-commerce. It has since received a strategic investment from Alibaba. Broader consolidation is likely – although predominantly among the smaller players – as the industry figures out how to make more money.

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NEWS

GLOBAL

Temasek backs Dell in $67b acquisition of EMC

Singapore's Temasek Holdings is supporting the $67 billion buyout of data storage and cloud computing company EMC Corporation by US-based computer maker Dell. Other backers include Silver Lake and MSD Partners. EMC's investors will get about $33.15 per share in cash, plus a tracking stock tied to EMC's interest in cloud infrastructure and business mobility firm VMware.

AUSTRALASIA

Cardno backs Crescent's improved buyout offer

Crescent Capital Partners has moved closer to a buyout of Australian engineering company Cardno by winning board support for the deal with an improved offer. The PE firm last month said it would buy one out of every two shares - excluding the 19.62% it already owns - in Cardno at A$3.15 apiece. The board rejected the offer but later agreed on a price of A$3.45 per share.

Providence makes buyout offer for iSelect

Providence Equity Partners has submitted a buyout offer for iSelect, an Australian Securities Exchange-listed product comparison site specializing in insurance, household utilities and personal finance. ISelect is worth around A$463 million ($337 million), based on recent data.

Regulator concerned about Brookfield's Asciano deal

Australia's antitrust regulator has raised concerns about Brookfield Asset Management's A$8.9 billion ($6.5 billion) cash-and-stock acquisition of listed rail freight and cargo port operator Asciano, saying it could lead to reduced competition. Brookfield Infrastructure controls 55% of the acquisition vehicle, with Brookfield-managed private funds holding 23% and two institutional partners holding 11% apiece.

GREATER CHINA

SAIF, Yunfeng lead $158m round for Rong360

SAIF Partners and Yunfeng Capital have jointly led a RMB1 billion ($158 million) Series D round of funding for Rong360, a Chinese online search platform for loan products. Sequoia Capital and Star VC also took part in this round, which values the company at approximately $1 billion. Rong360 provides online search service for a variety of financial products, covering bank loans, peer-to-peer lending, wealth management and credit cards.

PE exposure drives Asia family office performance

Family offices in Asia Pacific produced the second-best performance globally in 2014, in part due to their relatively large private equity exposure, according to a new report. The Global Family Office Report 2015, released by Campden Wealth Research in partnership with UBS, found that Asia Pacific family offices generated an average return of 6.3% last year in dollar terms, down from 7.6% in 2013. Europe performed best, returning 6.4%, while the global average came to 6.1%, compared to 8.5% the previous year.

The study covered 224 family offices based in 37 countries, representing well over $200 billion in private wealth. A total of 35 Asia Pacific family offices participated, with average assets under management of $431 million.

Family offices in the region hold 45% of their portfolios in illiquid assets, such as private equity and real estate. This is similar to the global average but significantly higher than normally seen in the portfolios of high net worth individuals (HNWIs). Asia Pacific family offices' allocations to private equity specifically are relatively high - the global average is 22% while in Hong Kong it rises to 27% (although Hong Kong family offices achieved lower than average overall returns of 6% for the year). These percentage allocations include venture capital and co-investment, and the study found that family offices usually take an active management role for private equity. Office-to-office deals typically constitute one tenth of a family office's private equity allocation.

AngelList raises $400m from CSC Group

Start-up funding platform AngelList has raised a $400 million early-stage focused fund from CSC Venture Capital, the US arm of private equity firm China Science & Merchants Investment Management Group, also known as CSC Group. The fund, called CSC Upshot, is said to represent the largest investment by a Chinese PE firm in a US fund, as well as the largest single pool of capital devoted to early-stage start-ups.

Jiuxian approved to list on New Third Board

Jiuxianwang E-commerce, a PE-backed Chinese e-commerce site that sells wines and spirits, has won regulatory approval to list on China's over-the-counter board. The company was founded in 2009 and has raised about RMB1.43 billion ($225 million) across seven funding rounds.

Good Resources, Bank of China set up $5b fund

Good Resources Holdings, a Hong Kong-listed investment firm controlled by Chinese billionaire Kin-Ming Cheng, will set up a joint global MA& fund worth $5 billion in conjunction with Bank of China's Hong Kong asset management unit. Good Resources will own a 51% interest in the GP, with Bank of China holding the rest.

Ant Financial leads round for news platform 36kr

36Kr.com, a Chinese news portal that covers venture capital and technology start-ups, has raised a Series D round of funding led by Ant Financial, an online finance affiliate of Alibaba Group. Huatai Ruilin, a technology, media and telecom-focused fund owned by Huatai Securities and existing investor Matrix China Partners also participated in the round..

NLVC leads round for English learning platform

Northern Light Venture Capital (NLVC) has led a $20 million Series B round of funding for VIPKID, a China-based English-language learning platform that targets primary and secondary school students. Matrix Partners, Innovation Works and Sequoia Capital also participated in the round.

Wuxi Healthcare VC backs US genetics start-up

Wuxi Healthcare Venture, a VC fund owned by

China-based Wuxi Pharmatech, has participated in a $115 million Series E round of funding for 23andMe, a Silicon Valley-based genetics-testing company. Fidelity is the lead investor in the round.

Outbound travel site Qulv.com raises $20m

Qulv.com, a Chinese outbound travel-focused platform, has raised a $20 million Series A round of funding from domestic GP Yuantai Changqing Fund. It will use the new capital to strengthen its position in the outbound travel vertical, provide charter flights and local pick-up services.

NORTH ASIA

SoftBank backs US-based Cybereason

SoftBank Corp. has led a $59 million Series C round of funding for US-based Cybereason and will help the company distribute its cyber-security platform in the Japanese market. Cybereason is headquartered in the US but was founded in Israel three years ago by former members of the Israel Defense Forces (IDF).

SOUTH ASIA

Everstone buys controlling stake in India's SJS

Everstone Capital has bought a 51% stake in India-based industrial graphics maker SJS Enterprises for INR3.5 billion ($54 million). The GP acquired its holding from two separate investors: 25% from the owners and 26% from US-based printing company Serigraph.

IFC to invest $25m in India's BigBasket

The International Finance Corporation (IFC) will commit $25 million for a minority stake in Indian online grocer BigBasket. The plans to expand into 20 additional tier two cities across India over the next two years – it currently in nine cities – and also add more collection centers for farmers to deliver fresh produce.

VC-backed Equitas files for India IPO

Indian microfinance institution Equitas Holdings wants to raise INR6 billion ($92.5 million) through an IPO. VC investors that will make a full exit via the offering include Sequoia Capital and WestBridge Capital Partners, while others such as the International Finance Corporation and Helion Venture Partners will make partial exits.

Alibaba seeks full ownership of Youku Tudou

Alibaba Group wants to take full ownership of Chinese online video platform Youku Tudou in a deal that values the US-listed company at approximately $4.2 billion. Alibaba and Yunfeng Capital - a PE firm co-founded by Jack Ma, Alibaba's executive chairman - acquired a combined 18.5% stake in Youku Tudou for $1.22 billion in April 2014. As of March 2015, their investment vehicle owned 20.7% of the firm.

Now Alibaba, which holds 18.3% of Youku Tudou on its own, is offering to pay $26.60 per American Depository Share to take the company private. This represents a 30.2% premium to the October 15 closing price and a 12.8% discount to the price at which Alibaba and Yunfeng invested last year. Victor Koo, founder, chairman and CEO of Youku Tudou, and Chengwei Ventures have agreed to vote in favor of the deal. Together they own an 18.5% equity stake but have 48% of the voting power due to the company's dual shareholding structure. Koo would remain with the business as chairman and CEO.

Youku and Tudou were leading independent forces in China's online video market and went public in 2010 and 2011, respectively, having received more than $300 million in private equity and venture capital funding between them. They agreed to merge in 2012 in a 100% stock-to-stock transaction worth more than $1 billion.

Nippon Life boosts stake in Reliance Capital

Japanese life insurance firm Nippon Life will pay INR12 billion ($184 million) to increase its stake in Indian asset manager Reliance Capital Asset Management (RCAM). The investment will see Nippon Life's stake rise to 49% from the current level of 35%, where it has been since paying INR6.57 billion for a 9% stake last year.

IndEU to close debut India fund at $70m

IndEU Capital, a France-based PE firm, will close its debut India-focused fund at $70 million before the end of the year. LPs include family offices and private investors from regions such as Western Europe, Southeast Asia and the Middle East.

ASK Capital names Evan Gallagher as CEO

India's ASK Group has appointed Evan Gallagher, formerly head of IDFC Alternatives, as CEO of Singapore-based ASK Capital Management. He will lead the international capital markets approach for ASK private equity, real estate and listed equities business as the firm seeks to raise $1 billion over the next three years.

SOUTHEAST ASIA

Carlyle appoints SE Asia head, fires Louis

The Carlyle Group has promoted Sunil Kaul to head of its Southeast Asia buyout operations following the sacking of Indonesia-focused Rajiv Louis, who was sanctioned for insider-trading activities while working at UBS. Carlyle described the head of Southeast Asia job as a newly-created role that reflects the opportunities it is seeing in a fast-growing region. Louis joined the firm from UBS in 2013.

Monk's Hill commits $5m to Playlab

Hong Kong-based mobile game studio Playlab has raised $5 million in Series B funding from Monk's Hill Ventures. Playlab, which was founded in Bangkok in 2012, will use the capital to build its operations in Southeast Asia, with the goal of becoming the region's largest gaming firm.

Cassia leads round for Vietnam's KAfé Group

Cassia Investments has led a $5.5 million Series A round for KAfé Group, a Vietnamese café chain operator, with participation by existing investor New Asia Partners (NAP). KAfé Group, which currently operates four restaurant brands in Vietnam and is developing two packaged beverage brands, will use the capital to further expand within the country.

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In from the dark

China's shadow lenders are an often-misunderstood part of the private debt sector. Investors say these unregulated institutions are not necessarily a threat, but they are hard to account for

AFTER A SPATE OF SUICIDES AMONG entrepreneurs in 2012 in the southeastern Chinese city of Wenzhou, the central government discovered an epidemic of questionable lending practices. Before the global financial crisis, individuals had borrowed large amounts of money from unlicensed financial institutions with the intention of speculating on the country's then booming economy.

However, when the crisis hit, those customers found themselves saddled with debts they couldn't pay back. Their defaults precipitated the collapse of the city's underground lending system, and even damaged established banks that had ties to the unregulated segment.

The government's actions over the Wenzhou case affected only a small part of China's wide-ranging shadow banking sector. While the authorities have tried to legitimize the institutions that caused the 2012 crisis, they play a constant game of catch-up. Lenders continually devise new products to skirt the newly established rules for investors that still see value in their services, and businesses and individuals continue to turn to unregulated providers for funds that they cannot get anywhere else.

"Actually, some of the sources of capital in the shadow banking system the government would very much support, because it's giving companies a better source of capital that's more efficiently priced," says Benjamin Fanger, co-founder and managing director at China distress specialist Shoreline Capital. "Some sources the government would very much not support, such as loan sharks, for obvious reasons."

Fanger points out that the shadow banking system can also provide deals for firms such as his; for instance, a rise in non-performing loans that started several years ago can be traced back to a previous explosion of credit, including loans from unofficial sources.

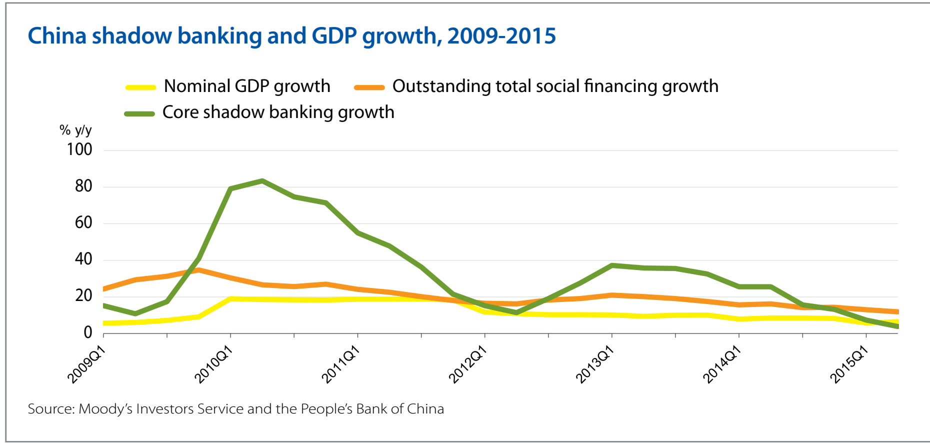
The extent to which there is actual crossover between China's shadow banks and institutional private investment firms offering equity or debt-based financing is unclear. But even in those areas where unofficial institutions may encroach on the territory of more traditional finance providers, they are unlikely to supplant them. Differences in the nature of the solutions provided by each type of player, and in the companies to which they are likely to appeal, means they have little to fear from each other.

Hard to define

Moody's Investors Services put the value of China's shadow banking sector at RMB41 trillion ($6.5 trillion) last year, up from RMB19.2 trillion in 2011. But monitoring the sector can be difficult, because the term encompasses a wide and constantly shifting range of financial activities. While shadow banking is not difficult to define – it simply means financial activity that is not carried out by the existing banking system – it is that broad definition that makes it hard to discuss the practical operations in this space.

"What is shadow-banking? It's non-bank faster growing," says Stephen Schwartz, a senior vice president at Moody's Investors Service. "And the authorities are always scrambling and kind of one step behind, trying to get a better hand on regulating these components, to prevent them from becoming risky, or too large, by bringing them into the regulated map."

The more recently devised aspects of the shadow bank sector include ventures such as peer-to-peer lending, e-financing and umbrella trusts. Despite their relatively late introduction, these financing models have become common enough for Moody's, in its latest shadow banking monitor report, to group them together as "non-core" activity, differentiating them from such "core" components as margin financing, entrusted loans, and trust loans.



Wealth management instruments provided by shadow bankers tend to change often, in order to circumvent regulations set up to rein them in. Often the unofficial lenders will still be linked to the legitimate banking system.

In one arrangement that investment professionals have seen in recent years, banks team up with trust companies to offer credit to customers. The trusts sell beneficiary rights to the banks and loan the proceeds to their clients, which means that while the banks are financing the loans themselves, the actual debts are not on their books. Banks have been caught out in the past using structures like these to circumvent rules under which they must hold a proportion of total assets on account.

lending. If you are doing solid, well-underwritten transactions onshore then you are participating in non-bank lending, and it is useful for any economy. We are proudly doing this," Rob Petty, managing partner and co-founder at Clearwater Capital Partners, a credit and special situations investor, told AVCJ earlier this year.

Components of the system include those that are highly disreputable, and sometimes illegal, such as loan sharks. On the other end of the scale, the sector can also involve instruments that are completely legal, but not part of the formal banking system and therefore not subject to existing regulations.

"They are sometimes the things that are making headlines in the news, even when they're relatively small, just because they're new and

> "The authorities are always scrambling and kind of one step behind, trying to get a better hand on regulating these components" – Stephen Schwartz

Indeed, though all societies have some form of shadow banking, the incarnation in modern China owes much to the restrictions outlined above, and in turn to the country's recent economic developments.

"What really gave rise to what we might call the unhealthy and concerning growth of the shadow banking system was the government's efforts to tamp down overall credit growth, and then this money finding its way around those regulations," says Schwarz. "From 2011-2013, the authorities increasingly implemented regulations to bring those flows back into the regulated credit channel, and they've been succeeding."

Cyclical impact

The economic trends that have alternately heated and cooled the Chinese economy have also contributed to the vicissitudes of the shadow lending sector.

During the global financial crisis, the central government implemented economic stimulus measures that were largely channeled through banks. This caused people to turn away from shadow banking due to the ease of obtaining credit through formal means, but the sector rebounded when the stimulus-inspired demand proved too much for the government's measures.

In the first half of 2009, average monthly new bank lending was RMB1.23 trillion. As this credit growth was pared back in relative terms as the year wore on, so the informal lending sector stepped in: Data from Moody's shows a sharp rise in the rate of growth of core shadow banking starting in the third quarter of 2009, far outstripping nominal GDP growth.

"Sometimes the market gets a lot of liquidity and people are very bullish for a certain period of time. But this level of business in China typically doesn't last more than a year," says Wee Yap Yeo, head of mezzanine capital at UOB. "Problems emerge and new deals suddenly will just dry up. And then these companies will basically say: 'This source of capital has dried up; I need to look for another source, which may be more expensive.'"

The burst in shadow financing declined somewhat in the following years, but had a slight recovery when the authorities pulled back again on stimulus financing. With demand for credit still high, but less credit available through banks, borrowers turned to other sources. Moody's data shows shadow banking growth returning in the second quarter of 2012, before dipping again under pressure of new regulations. By the second quarter of 2015 nominal GDP was once again growing faster than shadow bank lending.

The companies that turn to shadow banking in today's China are not a random sampling. Daniel Kwan, head of mezzanine capital at OCBC, believes they tend to be enterprises that rode the initial wave of China's development when the economy was export-focused. Those companies, which benefited greatly from foreign investment at the time, are now not as attractive to traditional lenders because of the growth of the country's technology and services sectors.

"The companies that actually do very well nowadays, or in recent years, are those that have looked inwards, to serve the Chinese market, rather than the overseas market," says Kwan. "For example, mobile phone makers, which are focused on the domestic market, have realized that the domestic market actually makes more money than the overseas market."

Because of the declining interest from outside investors in China's manufacturing sector, these companies increasingly turn to non-traditional channels to meet their financing needs.

Though individual investment professionals differ on the specifics, all agree that there are definite commonalities among the companies that are more likely to receive shadow financing. Shoreline's Fanger agrees that old-economy businesses are the most likely borrowers, but feels that the reason has more to do with the unattractiveness of the new-economy enterprises to the shadow sector.

"Usually they wouldn't be able to get shadow banking money, because much of the shadow banking system is actually secured debt, so the lenders would be looking for hard assets," says Fanger. "Lending to services businesses or tech companies that only have intellectual property is less common. And for those companies, as long as there's growth potential I think they're more likely to go to private equity."

Competitive threat?

While use of shadow banks is often taken to indicate problems with a company, investors emphasize that this cannot be assumed. A firm may have good reasons to consider a loan from a shadow lender to be more attractive than a more traditional source of credit, and in fact Shoreline has at times lost deals to shadow lenders.

Factors that can influence a company to consider going to the informal sector for funds include the speed of closing the deal; shadow lenders may not raise the kind of due diligence issues that a traditional investor will. Company management may also prefer to pay high interest on a more informal loan, rather than give up a stake in the company and open themselves up to challenges over control from an outside investor.

"It all depends on what the situation is before they start to borrow, and what the focus of the borrowing is. They need to put the borrowing to good use, such that it can create cash flow coming out on time to service those debts," says Yeo. "And if they can figure out how to make themselves stronger, more credible, more credit-worthy, then they can tap back in to the commercial banks, and get everything back to an even keel again."

The utility of the shadow lending sector is an important reason why it is unlikely to disappear. Even the central government has shown no interest in wiping the sector out; its focus is more on reducing the abuses of the most egregious areas, while bringing the more useful offerings into the regulated banking system.

Shadow lenders can even benefit other players in the investment system, for example by providing an outlet for riskier deals. While the resulting options might be fewer, they will most likely be more focused than a bigger pool that includes riskier bets.

"In 2010, you could lend to a real estate developer that had a half-built building as collateral at a 50% LTV [loan-to-value ratio] for a 25% return," says Fanger. "But that doesn't make sense in an efficient market. And therefore, the emergence of the shadow banking system is actually in some ways a good thing for China, because it allows for more efficient pricing of risk."

However, though investors share the view that the shadow lending sector is sure to survive, none are sure what form it will take in the future. Many feel that the previous wave of growth, which was touched off by unmet demand following the government-driven bank lending, is unlikely to repeat itself, since the authorities have learned from their previous attempts.

Though additional stimulus measures are expected in light of the current downturn – China's GDP growth came in at 6.9% for the third quarter, the lowest since 2009 – the government is likely to be more cautious this time around.

"With respect to government stimulus, we would not expect the current round to be as significant as the 2009-2010 period," says Schwartz. "While the overall policy stance will likely be eased to prevent a sharp deceleration of growth, the authorities appear to be limiting the degree of stimulus so as to avoid a further buildup in leverage and financial risks."

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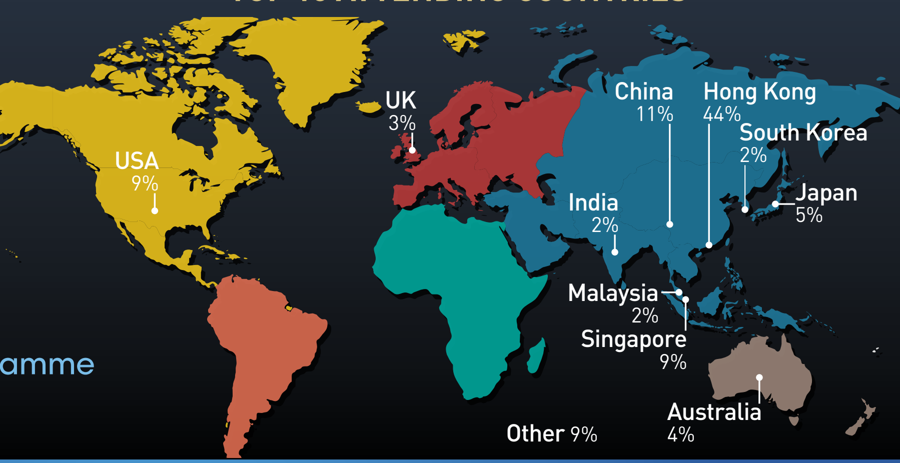

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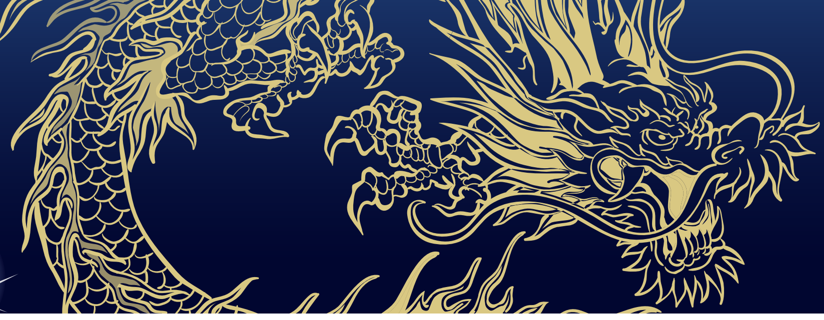

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KKR eyes O2O home services expansion

COMPETITION AT THE LARGER END OF China's internet industry has in recent times been characterized as an arms race: the leaders in a particular segment offer huge subsidies to attract customers and build market share. In many cases, Alibaba Group has been on one side of the battle lines and Tencent Holdings on the other.

Mergers this year in the online-to-offline (O2O) services space – Didi Kuaidi and the impending Dianping-Meituan union – suggest the dynamic is now changing. The recent $300 million investment in 58 Daojia, the O2O local services platform of classifieds site 58.com, offers further evidence: While Tencent is a major shareholder in 58.com, the funding round for the subsidiary is led by Alibaba, alongside KKR and Ping An Group.

"They realize that the internet market – especially O2O – is going to be a big opportunity for everybody. Instead of competing and investing a lot of cash we see them agreeing to work together," says Lane Zhao, a director for private equity at KKR. "Having them both involved [directly or indirectly] in 58 Daojia is very meaningful for the company strategically."

58 Daojia was set up in September of last year, and although the recent investment is described as a Series A round, 58.com has invested a significant amount – hence the post-investment valuation of $1 billion. Additional capital from third parties was seen as essential for the business to realize its potential.

The company provides information on and access to offline services such as cleaning, moving, babysitting, and beauty care in approximately 30 cities in China. The idea is that customers can connect directly with nearby independent service providers who can travel to their homes.

58 Daojia: Direct to your door

Zhao estimates the market was worth $180 billion nationwide in 2014 even though the penetration level is low compared to more developed Asian markets. It is also a highly fragmented market, dominated by countless small-scale players that provide inconsistent levels of service.

Online platforms can consolidate in a way that offline players cannot. The individual service providers also stand to benefit: they manage their own time, take on more customers, and pay the platform a 25-30% commission compared to the 60-70% taken by offline establishments that have higher fixed costs to cover.

58 Daojia's objective is to offer more services in more cities. Zhao accepts that subsidies are required to get traction in new markets, but notes that 58 Daojia's burn rate is far lower than that of some other players in the O2O space in recent years.

"58 Daojia is number one in each of the service categories in which it operates," he adds. "Our main competitors tend to be smaller players in different categories; we think it would be difficult for other players to become large enough to compete with us in the near term. We think there is the potential to build a platform as large as Dianping-Meituan or Didi Kuaidi."

SingPost's one-world e-commerce play

IN RESPONSE TO A DECLINE IN TRADITIONAL mail delivery, Singapore Post (SingPost) is transforming itself to a technology-driven business. Its recent acquisitions of two US-based companies reflect an ambition to be part of the global e-commerce market.

Last week, SingPost bought 96.3% of TradeGlobal from PE backer Bregal Sagemount for about S$236 million ($169 million). It came a few days after the acquisition of a 71.1% stake in logistics management platform Jagged Peak.

"Our objective is to find a solution what will enable Asian clients to expand globally and allow US companies to come to Asia in a seamless way," says Marcelo Wesseler, CEO of SingPost E-Commerce. "After the acquisitions, we will cover Asia Pacific and the US, which account for two thirds of the global e-commerce market."

TradeGlobal and Jagged Peak are complementary assets. The former provides one-stop e-commerce services from website design, content management, marketing and analytics, to fulfilment and logistics. It serves about 60 large premium consumer brands in fashion, beauty and lifestyle products, including Versace and Boss. The latter, meanwhile, specializes in technology solutions for managing offline warehouse facilities and logistics.

The two companies have leading positions in the US, and they are keen to attract more Asian clients. SingPost got to know TradeGlobal through its existing clients and technology providers. The presence of a private equity owner made it confident about the value of the asset, but the key factor was the two founders – Dave Cook and Dave Eckley – who set up the company in 2001. They will stay on as chairman and CEO after the acquisition.

E-commerce: SingPost target

"They have grown the business in a very sustainable manner. For example, they haven't really lost any big customers in the last 10 years," says Wesseler. "If their clients are very happy, that's one of the key requirements for creating a very profitable business."

SingPost generated S$919 million in revenue last year, up from S$821 million in 2013, while net profit dropped 18% year-on-year to S$158 million. However, for the quarter ended June 2015, revenue was up 20.7% year-on-year at S$255 million and net profit rose 16% to S$47 million. Performance was buoyed by e-commerce-related activity, which contributed the logistics division's gains in revenue and operating profit of 43.6% and 74.6%, respectively.

The company also has a more nascent retail and e-commerce division – it generated revenue of S$24.1 million for the quarter compared to S$140.1 million for logistics – but it is expected to grow in importance as a result of SingPost's alliance with second-largest shareholder Alibaba Group. Using TradeGlobal and Jagged Peak, the plan is to help traditional retailers go online by building individual e-commerce websites and managing offline distribution centers.

Meanwhile, SingPost's M&A spree will carry on, with the next target likely to be in Europe.

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Independent's day

Vertex Ventures' China team recently raised their first fund as an independent from the Singapore parent. Managing Director Choon Chong Tay explains the organizational changes and discusses the team's investment strategy

Q: What exactly has changed in the structure and organization of Vertex Ventures China?

A: Previously, all the capital came from a single investor. We have now raised more than $200 million for a China-focused fund and Vertex Holdings contributed slightly less than half of that. The rest comes from endowments, family offices, and fund-of-funds. We retain an affiliation to Vertex – and we are keeping the name – but the structure incentivizes us to be more returns-driven because all the economic interest now comes to the China team. Investment decisions are now also taken locally, whereas previously we had some external participation in the process. This change in structure applies to most of the Vertex teams and Vertex Holdings will allocate $600 million to various independent funds.

Q: How much capital was previously allocated to China?

A: We started about six years ago and we divide it into two periods or funds. We had $80 million between 2009 and 2013, and then $150 million between 2013 and 2015. We have made close to 40 investments there have been seven exits so far.

Q: Which exits stand out?

A: There have been two realized returns of more than 10x, both from Fund I. We invested in 91 Wireless, a mobile app store business, in 2010 and it was acquired by Baidu three years later for $1.9 billion – at the time it was the largest acquisition by an internet company in China. The other one is a mobile gaming company called IGG, which we backed in 2008 and went public in Hong Kong in 2013. We also have a range of exits between 3-8x across both funds, and only two losses.

Q: To what extent are you seeing a wider variety of exit options?

A: It is no longer just about IPOs in the US. We listed IGG in Hong Kong and we have another portfolio company waiting for a listing in mainland China. Trade sales to local companies are another good exit point. In addition to 91 Wireless, we recently sold part of our stake in Meilele, an online-to-offline (O2O) furniture retailer, to Shanghai-listed Guangdong Yihua Timber Industry. We like the buyer because it can help in other aspects of Meilele's business and that was why we just did a partial exit – we see more upside in combining Yihua's expertise with that of Meilele.

Q: How much exposure do you have to the O2O space?

A: We have invested quite a bit in e-commerce side and in local services. These areas have a lot of potential because the services market is underpenetrated and the infrastructure is poor. Companies can take advantage of that through the internet. Meilele was one of the first to use online traffic to drive customers to offline stores where they can look at furniture and make purchases. The showrooms don't have to be in prime locations – because the customers come to them – and this saves so much on rental. We had a lot of interest from offline furniture companies that want to look at how they can address changing customer behavior.

Q: What about O2O local services specifically?

A: We have invested in a number of businesses that address different market segments. For example, Ayibang is a platform through which users can book part-time maid services. You can make bookings in real time, you know what the rate is going to be, you know where the maid is from, and you can find out how the maid has been rated by previous users. The maids can manage their own time, and they can make more money. QingSong has a similar business model but for repairs – you can book professional repairmen, who provide standardized services at standardized prices, to come to your home and service air conditioners, washing machines, radiators and other appliances.

> "I don't think there will be a heavy valuation reset; it's more binary than that" – Choon Chong Tay

Q: How important frequency of use when trying to build scale in these businesses?

A: With Aiyibang and QingSong, it is not so much about getting high frequency as having customers trust your brand name. We spoke to consumers and there is definitely demand for these services. They don't really have anyone to provide them apart from mom and pop shops where the quality of service is unknown. With the emerging middle class, you can address a sizeable market serving appliances.

Q: What are your views on companies that spend a lot on subsidies to achieve scale? And if scale is not achieved, what are the exit options?

A: Initially, companies might spend some money on marketing and promotions but in the long term they have to develop loyal customer bases so they aren't just competing on price. There must be a depth of knowledge and skilled technicians, so it is hard for companies running large platforms to do it themselves. You need this kind of barrier to entry; it's not just about getting a lot of users. As for exits, if we don't think the market size can reach at least $1 billion then we probably stay away.

Q: What are you seeing in terms of valuations in China?

A: Valuations for Series A and B rounds went up quite a bit in the first half of 2015, but since then we have seen the market return to more rational levels. Given what has happened with the public markets, investors have become more bearish. Companies are now willing to engage you and let you carry out due diligence instead of just rushing around trying to get deals done. I don't think there will be a heavy valuation reset; it's more binary than that. Companies that are good can still raise capital at high valuations.

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