



Flying high in 2015

The stories behind a record year for private equity investment in Asia  Page 9

DEAL OF THE WEEK



A logistical alliance

DKSH backs Southeast Asia's aCommerce  Page 29

PORTFOLIO



Precision relaunch

Shaw Kwei's revitalization of Beyonics  Page 30



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John Gu: +8610 8508 7095; john.gu@kpmg.com
Rupert Chamberlain: +852 2140 2871; rupert.chamberlain@kpmg.com
Kenneth Pang: +852 2140 2838; kenneth.pang@kpmg.com
Sebastian Leotta: +852 2140 2206; sebastian.leotta@kpmg.com

kpmg.com/cn

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EDITOR'S VIEWPOINT

tim.burroughs@avcj.com

Five trends for 2016

WHAT DO THE NEXT 12 MONTHS HAVE

in store? AVCJ has some ideas, but first here is a review of the predictions made for 2015...

• LARGER PRIVATE ROUNDS IN THE TECH SPACE

Growth investments in internet-related companies stand at \$21.9 billion so far in 2015, up 64% on 2014.

• IT WILL BE TOUGH TO BETTER THE 2014 TRADE SALE TOTAL

The trade sale total has dropped from \$43.7 billion to \$28.9 billion, but it is still higher than the 10-year average.

• THE IPO TOTAL WILL NOT BE TOPPED, BUT WATCH OUT FOR VOLATILITY

Yes, but we were looking in the wrong place, having cited the US and Australia as potential concerns. Rather, it was volatility in China has been a primary cause of unrest in markets across the region.

• JUDGMENT DAY FOR INDIAN PRIVATE EQUITY

With even more capital raised in 2015 and the Indian economy among the fastest-growing globally, there is reason to be cheerful. However, some LPs say that the jury is still out on Indian private equity and economists may say the same about economic reforms.

• A BIG YEAR FOR AUSTRALIAN INFRASTRUCTURE

Nearly \$12 billion has been deployed across infrastructure, telecom and utilities, but most of it came from just one deal. So 2014 could have been even bigger.

Which brings us to the five trends for 2016...

• A BIG YEAR FOR AUSTRALIAN INFRASTRUCTURE

Yes, this again. Following the \$7.4 billion privatization of TransGrid, the New South Wales government has said it plans to push ahead with sales of other electricity transmission assets. Queensland may follow suit as state governments increasingly look to brownfield privatizations as a means of funding greenfield

projects. However, as 2015 has shown, deal flow is large but lumpy.

• INCREASED BIFURCATION IN THE FUNDRAISING MARKET

Between January and mid-December 2015, \$6.2 billion was committed to Asia-focused buyout funds, the lowest total since 2009. With Bain Capital, PAG Asia and Hony Capital all expected to have final closes around the \$3 billion mark, buyout fundraising will be stronger in 2016. At the same time, the middle market space, populated by funds of \$750 million to \$1.5 billion will continue to thin out.

• NO RECORD-BREAKING BUYOUTS

Twice in 2015, the title of Asia's largest-ever PE buyout changed hands. Given that big auctions are flagged up well in advance, a similar-sized deal for completion in 2016 would probably already being talked about. We may see more control deals in Asia, particularly in the \$500 million to \$1 billion range, but there will not be a Homeplus Mk2.

• A UNICORN WILL DIE

Death might be a somewhat extreme description, but it is not unreasonable to suggest that one or more of the 32 unicorns (start-ups with valuations in excess of \$1 billion) said to be resident in Asia will at least merge. It has already happened with Didi Kuaidi and Meituan Dianping. This is part of a broader rationalization in the tech sector, characterized by more realistic valuation expectations and business models that look beyond growth at any cost.

• A RENMINBI RESURGENCE

Fundraising for renminbi-denominated vehicles slumped from \$34.7 billion in 2011 to \$16.6 billion in the first nine months of 2015, with state-backed policy funds the main actors. However, domestic capital markets reforms will spur renewed interest. Renminbi funds that can help internet companies transfer from offshore to onshore entities with a view to local listings are likely to be a particular area of focus.

Tim Burroughs

Managing Editor
Asian Venture Capital Journal



Managing Editor

Tim Burroughs (852) 2158 9661

Associate Editor

Winnie Liu (852) 2158 9663

Staff Writer

Holden Mann (852) 2158 9646

Design

Edith Leung, Mansfield Hor

Events

George Sengulovski,
Jessie Chan, Jonathon Cohen,
Sarah Doyle,
Amelie Poon, Fiona Keung,
Jovial Chung,

Marketing

Agrina Sandri, Priscilla Chu,
Yasna Mostofi

Research

Helen Lee, Herbert Yum,
Jason Chong,
Kaho Mak, Tim Wong,

Sales

Anil Nathani,
Darryl Mag, Debbie Koo,
Samuel Lau,
Jayla Tam, Pauline Chen

Subscriptions

Jade Chan, Prudence Lau,
Sally Yip

Publishing Director

Allen Lee

Hong Kong Headquarter

Suite 1602-6
Grand Millennium Plaza
181 Queen's Road
Central Hong Kong
T. (852) 2158 9700
F. (852) 2158 9701
E. AVCJ@mergermarketgroup.com
URL avcj.com

Beijing Representative Office

No.1-2-(2)-B-A554, 1st Building,
No.66 Nanshanan,
Chaoyang District, Beijing,
People's Republic of China
T. (86) 10 5869 6203
F. (86) 10 5869 6205
E. CAVCJ@avcj.com

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Please note that the AVCJ office has moved to the following address with immediate effect:

Suite 1602-6
Grand Millennium Plaza
181 Queen's Road
Central Hong Kong
T: +852 2158 9700
F: +852 2158 9701

Email address for all AVCJ staff will now be using the @AVCJ.com domain. The format will be FirstName.LastName@AVCJ.com

e.g. Allen Lee's email is now
Allen.Lee@AVCJ.com

GLOBAL**Blackstone raises \$18b for global fund**

The Blackstone Group has reached a final close on its latest global private equity fund at \$18 billion, with demand well in excess of the \$17.5 billion hard cap. It includes a \$500 million commitment from the firm and its employees.

LeapFrog gets \$200m from OPIC

The Overseas Private Investment Corporation (OPIC) has committed \$200 million to LeapFrog Investments as part of a \$1 billion financing drive for development-oriented funds in emerging markets. Other portfolio GPs include Apis Partners, The Abraaj Group, 57 Stars, and I Squared Capital.

AUSTRALASIA**Paine & Partners buys Australia's AgBiTech**

Paine & Partners has acquired a majority stake in AgBiTech, an Australia-based producer of biological insecticides for crops. The company has developed products that target caterpillars.

Government unveils incentives for start-ups

The Australian government has introduced a range of measures to boost local innovation and entrepreneurship, committing A\$1.1 billion (\$795 million) over four years. These include tax breaks for early-stage investors, changes to insolvency laws, the creation of co-investment funds, and support for incubators and accelerators.

Blue Sky targets \$144m VC fundraise

Blue Sky Venture Capital, a division of Australia-based Blue Sky Alternative Investments, will raise a A\$200 million (\$144 million) fund focused on later-stage local start-ups.

GREATER CHINA**MSPEA exits Sino Gas stake to Zhongyu**

Morgan Stanley Private Equity Asia (MSPEA)

Australia's Atlassian raises \$462m in US IPO

Atlassian, an enterprise software company founded in Sydney by two Australian entrepreneurs, has raised \$462 million in its NASDAQ IPO after raising the price of the offering once again. The company sold 22 million shares at \$21.00 apiece, according to a filing, and this could be swelled by a further 3.3 million shares if underwriters fully exercise the overallotment option. Atlassian was initially planning to sell 20 million shares at \$16.50-18.50 apiece.



The IPO values the company at \$4.38 billion, compared to the \$3.33 billion valuation at which the company raised its most recent private funding round. Accel Partners committed \$60 million to the business in 2010 and then made a partial exit when T. Rowe Price and Dragoneer put in \$150 million, paying \$16.00 per share. Both rounds were secondary transactions. T. Rowe Price expressed an interest in acquiring 4 million shares in the IPO, which would take its holding in the company past 5%. Accel is not selling any shares in the IPO but its holding will be diluted from 12.5% to 11.2%.

Mike Cannon-Brookes and Scott Farquhar, who met while studying at the University of New South Wales in Sydney, set up Atlassian in 2002. The company develops products aimed at software developers and project managers. Its core offering is JIRA, which is used to manage team workflow. The company has been profitable for each of the last 10 financial years.

has agreed to sell its 38.7% stake in Sino Gas to Zhongyu Gas for \$78.7 million. The buyer participated alongside MSPEA in the privatization of Sino Gas last year and will now take a majority stake in the business.

CPPIB, Temasek join \$7b round for PSBC

Canada Pension Plan Investment Board (CPPIB)

and Temasek Holdings have joined a RMB45.1 billion (\$7.5 billion) pre-IPO funding round for The Postal Savings Bank of China (PSBC). A consortium of foreign and domestic investors has purchased a nearly 17% stake in the company.

Huayi, Tencent, Yunfeng target movie deals

China's Huayi Brothers, Tencent Holdings and Yunfeng Capital – a PE firm co-founded by Alibaba Group's Jack Ma – have acquired a Hong Kong-listed shell company to develop films for local and international markets in a deal worth HK\$547 million (\$70.6 million). Jiuhaio will invest HK\$369 million in 10 productions and HK\$187 million in three animated productions.

Consortium submits sweetened offer for iKang

A PE-backed consortium that includes Meinian Onehealth has submitted a revised and improved proposal to acquire US-listed iKang Healthcare Group. It is willing to pay \$23.50 per share, up from \$22.00. iKang's management recently planned a rights issue, or "poison pill" strategy, intended to thwart Meinian's bid.

TV producer backs Qihoo360 take-private fund

Hunan TV & Broadcast Intermediary, a Shenzhen-listed TV producer, will invest up to RMB300 million (\$46.7 million) in a project fund raised to support the take-private of Chinese internet security firm Qihoo360 Technology. The plan is to re-list the business on the A-share market.

Home Inns, Jiayuan agree take-private deals

Chinese budget hotel operator Home Inns and online dating site Jiayuan have agreed to be taken private and merge with industry counterparts. Neil Shen, managing partner of Sequoia Capital China and co-founder of Home Inns is a shareholder in the business and participating in the take-private. Qiming Venture Partners is an investor in Jiayuan.

Olympus commits \$45m to e-waste processor

Olympus Capital has committed \$45 million to Li Tong Group (LTG), a Hong Kong-based reverse supply chain services provider and electronic waste (e-waste) processor. The company recycles mobile phones, computers and other IT and telecom devices.



Yirendai targets up to \$82.5m in US IPO

Yirendai, an online peer-to-peer (P2P) online platform owned by PE-backed China-based micro-credit loan player CreditEase, wants to raise up to \$82.5 million in a US IPO. The firm plans to sell 7.5 million shares at \$9.00-11.00 apiece.

IFC commits \$25m to SBCVC's fifth fund

The International Financial Corporation (IFC) plans to invest \$25 million in the latest fund raised by SBCVC, previously known as SoftBank China Venture Capital. SBCVC Fund V has a target of \$400 million and a hard cap of \$475 million.

Investors seal WuXi PharmaTech take-private

A consortium comprising the founder and CEO of WuXi PharmaTech and several PE investors has completed the privatization of the China-based provider of contract R&D services to global pharmaceutical companies. The deal values the company at approximately \$3.3 billion.

Sequoia leads round for education site

Sequoia Capital has led an \$84 million Series C round of funding for Xiaozhan Jiaoyu, a Chinese online education platform that focuses on students studying abroad. Vision Knight Capital also took part, as did GGV Capital, Milestone Capital, Shunwei Capital Partners and Bertelsmann Asia Investment.

NORTH ASIA

Formation 8 leads round for Korea's Yello Mobile

Formation 8 has re-upped in South Korean mobile internet company Yello Mobile, leading a \$47.2 million financing round. The investment is structured as a convertible debt and is expected to value Yello Mobile at around \$4 billion.

SOUTH ASIA

Nexus announces \$450m final close on Fund IV

Nexus Venture Partners has closed its latest fund, Nexus Ventures IV, at \$450 million, bringing its total capital under management to over \$1

Northstar leads \$1b Salim Group deal

Northstar Group has led a \$1 billion investment in Salim Group, one of Indonesia's largest conglomerates, through a structured transaction. TPG Capital and Gateway Management also participated.

The nature of the deal is not unusual in an Indonesian context. Given restrictions on direct foreign ownership in a range of consumer-facing industries, PE firms have eschewed traditional equity investments in favor of bonds that convert to equity once the target company lists. A relevant Salim asset is expected to pursue an IPO in due course, according to a source familiar with the situation.



The conglomerate's interests span the consumer, telecom, real estate and financial services sectors, with prime assets such as Indofood Sukses Makmur, the world's largest instant noodle producer. The private equity financing is secured against shares in two Salim-owned assets: Hong Kong-listed First Pacific, which holds stakes in Philippine Long Distance Telephone, Indofood, Goodman Fielder, as well as various infrastructure and resources holdings; and Indomaret, Indonesia's largest convenience store operator with nearly 11,300 outlets, 60% of them self-owned.

Salim is understood to be interested in building up capital and strategic support for an M&A push. The deal also comes at a time when Indonesia's capital markets are underperforming - prompting numerous companies to postpone capital-raising activities - and banks have become less aggressive in their lending policies.

billion. AVCJ previously reported that Nexus had raised \$434 million, comprising \$304 million in core equity and \$130 million for later-stage investments in existing portfolio companies.

Actis sells stake in Asiri Hospitals to TPG Growth

Actis has sold a 27.8% stake in Asiri Hospital

Holdings (AHH), Sri Lanka's largest private hospital group, to TPG Capital's growth equity unit for LKR7.6 billion (\$53.2 million). Actis invested in AHH in October 2012 in order to support a consolidation of the company's existing assets under the Colombo-listed parent.

India B2B logistics start-up BlackBuck gets \$25m

Tiger Global, Accel Partners, Flipkart and a fund linked to Yuri Milner of DST Global have committed \$25 million in Series B funding to BlackBuck, an India-based business-to-business logistics start-up. The company received \$5 million from Accel and Flipkart earlier this year.

CLSA leads \$10m round for India's Holisol Logistics

CLSA Capital Partners has led a \$10 million round of funding for Holisol Logistics, an India-based supply chain and logistics company. Holisol will use the proceeds to set up more fulfilment centers, expand its last-mile delivery network, and broaden its supply chain optimization solutions.

SOUTHEAST ASIA

TPG buys 50% of Myanmar spirits producer

TPG Capital has acquired a 50% stake in Myanmar Distillery Company Group (MDC), the Southeast Asian country's leading manufacturer and distributor of spirits, including top domestic whisky brand Grand Royal. This is the PE firm's second investment in Myanmar.

Thai Union abandons Bumble Bee deal

Thai Union Frozen Products' \$1.5 billion acquisition of Bumble Bee Seafoods from Lion Capital has been abandoned after the US Department of Justice said it was concerned the deal would harm competition.

Singapore's Aslan Pharma raises \$34m

Singapore biotech firm Aslan Pharmaceuticals has raised \$34 million in a Series C round led by Accuron Technologies, a subsidiary of Temasek Holdings. Other participants included Haitong International, Tianda Pharmaceuticals, Morningside Venture Capital, Bioveda Capital, Cenova Ventures and Sagamore Bioventures.



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Registration: **Anil Nathani**

T: +852 2158 9636

E: Anil.Nathani@avcj.com

Sponsorship: **Darryl Mag**

T: +852 2158 9639

E: Darryl.Mag@avcj.com

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2015: Capital in abundance

Ample liquidity and a tech boom drive up investment activity; venture takes center stage in a relatively quiet fundraising environment; exits do not disappoint, but fail to match the highs of 2014

INVESTMENT: SURPASSING \$100B

Asia PE deals top \$100 billion for the first time in 2015 on the back of big buyouts and internet frenzy

THE RECORD FOR THE LARGEST-EVER

corporate private equity buyout in Asia was broken not once in 2015, but twice. First, KKR, Deutsche Bank and Varde Partners agreed to acquire GE Capital's Australia and New Zealand consumer lending business in March at an enterprise valuation of \$6.3 billion. Then six months later, MBK Partners – accompanied by Canada Pension Plan Investment Board, Temasek Holdings and the Public Sector Pension Investment Board – got South Korean retailer Homeplus for \$6.4 billion.

These transactions played their part as buyouts for the year to date reached a record \$46.4 billion, comfortably beating the \$29.3 billion seen in 2014. Indeed, factor in the \$7.4 billion privatization of TransGrid, part of the New South Wales electricity network, and the top three private markets deals between them account for over 40% of the buyout total. Little wonder the previous peak of \$45.9 billion in 2007 has been surpassed with one third fewer deals.

However, another trend has arguably made an even more significant imprint on 2015: roughly six in every 10 deals announced have been early or growth-stage technology plays (and, for various reasons, this definition excludes financial services and healthcare). These investments are responsible for more than one quarter of all private equity capital deployed in Asia. Last year the share was 18%, and that was about twice the 2013 figure.

After PE investors committed \$92.5 billion in Asia last year, coming closer to the 2007 total than ever before, the industry has surpassed itself in 2015. As of mid-December, AVCJ Research's records indicate that \$112.7 billion has been invested. The deal count is below 2,500, compared to more than 2,800 last year. It represents a hive of activity supported by readily available financing for buyouts and a seemingly

insatiable appetite for a slice of the internet economy. Rising interest rates and growing concerns about a tech valuation bubble suggest that a repeat performance in 2016 is unlikely.

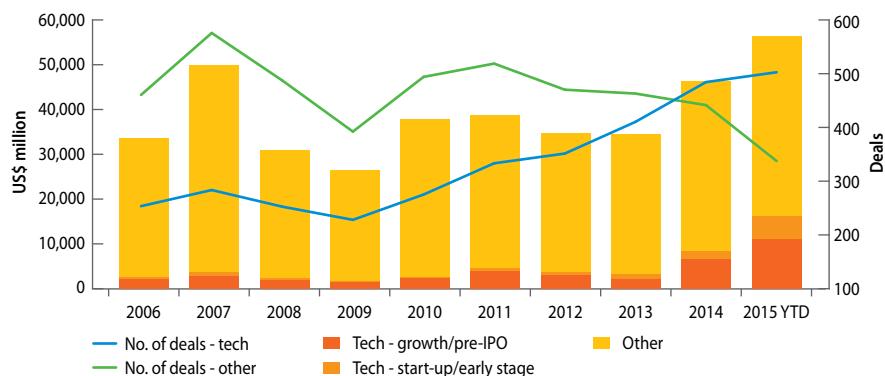
Infrastructure deals like TransGrid are an anomaly in the private equity space – privatizations of brownfield assets that are intended to generate long-term yields, not operationally-oriented buyouts positioned to generate outsize returns. However, these mega transactions are likely to become slightly more frequent, with other state governments putting assets on the block.

Australia was one of four major Asian private equity markets to see an upturn in investment

active private equity jurisdictions, with overall investment and buyout values rising every year since 2011. While the country's share of the regional buyout market fell, mainly due to the more than three-fold increase in Australia buyout deal flow, the numbers increased in absolute terms, and this was thanks to Homeplus, until this year owned by UK-based Tesco.

The four largest Korea investments completed in the past two years all involved foreign sellers, and it is they rather than local conglomerates driving up the headline number. Domestic divestments are largely restricted to the middle market, the much talked-of financial and strategic pressure having yet to stimulate non-

Asia PE investment - tech versus non-tech



in 2015, alongside China, India and South Korea. Eight of the 10 largest deals seen in the country – making up more than 60% of the capital committed – involved infrastructure or resources of some description, although TransGrid is the only full privatization.

There are two factors that connect Asia's three largest deals of the year. First, they demonstrate the willingness of traditional LPs to participate directly in deals that require additional firepower, with one pension plan and two sovereign wealth funds participating alongside two infrastructure managers in the TransGrid transaction. Second, both the GE and Homeplus deals came about because foreign companies divested Asian assets.

Korea has emerged has one of Asia's most

core asset sales by larger players. However, some say it is only a matter of time. Japan is in a similar position, with private equity investment falling by more than to \$3.1 billion.

Increased investment in China and India is inextricably linked to technology, particularly growth-stage deals led by mutual funds, private equity, hedge funds and other large-check-size players. Across the region, growth investments in internet-related companies stand at \$21.9 billion, up 64% on 2014 and nearly 400% on 2013. There has also been a sharp jump in early-stage activity – up 203% on last year at \$10.3 billion – as VCs pursue start-ups that might become the next multi-billion-dollar unicorns.

The impact is most profound in China, led

REVIEW OF THE YEAR

tim.burroughs@avc.com

Largest private equity deals, 2015

Investee	Investor	US\$m
TransGrid (Australia)	CDPQ; Hastings Funds Management; KIA; ADIA; Spark Infrastructure	7,407
Home Plus (Korea)	MBK Partners; CPPIB; PSP Investments; Temasek	6,451
GE Capital - Australia & New Zealand Consumer Lending Business (Australasia)	KKR; Deutsche Bank; Varde Partners	6,277
Momo (China)	Sequoia; Matrix; Huatai Zijin Investment	3,029
China Network Systems (Taiwan)	Morgan Stanley PE Asia; Far EastTone	2,300
CITIC Securities (China)	KIA; Och-Ziff; Yunfeng; Khazanah Nasional; Temasek; Harvest Fund Management; GIC Private	2,189
Asciano Group (Australia)	CPPIB; Global Infrastructure Partners; Qube	1,700
Crown Castle - wireless tower asset (Australia)	Macquarie Funds Group	1,600
CMC Holdings (China)	Alibaba; CMC Capital Partners; Oriza; Tencent	1,582
Apache Energy (Australia)	Macquarie Capital; Brookfield	1,428

Largest growth-stage tech deals, 2015

Investee	Investor	US\$m
Didi Kuaidi (China)	Temasek; Capital International; Tencent; CIC; Alibaba; Coatue; Ping An Ventures	3,000
Ant Financial Services (China)	NSSF; CDB Capital; Primavera; China Post & Capital Fund Management; GP Capital	1,417
Coupaing (Korea)	SofBank	1,000
17u.com/ly.com (China)	Wanda Group; CITIC Capital; Tencent	969
Zhong An Insurance (China)	Keywise Capital; SAIF Partners; CICC; Morgan Stanley; CDH private wealth platform	931
Dianping (China)	Wanda Group; Temasek; Tencent; FountainVest; Xiaomi; Fosun	850
Ucar Technology (China)	Warburg Pincus; Legend Capital; CAR; China Chengtong Development; Credit Suisse Private Equity Asia	800
Flipkart (India)	Tiger Global; Steadview Capital	700
Ele.me (China)	Beijing Hualian; CITIC PE; CMC Capital; Gopher Asset Management; JD.com; Sequoia; Tencent	630
Travice (China)	Alibaba; SoftBank; Tiger Global	600

Source: AVC Research

by the \$3 billion round for ride-hailing app operator Didi Kuaidi. Growth and early-stage tech investment stands at \$14.6 billion and \$8.6 billion, respectively, accounting for the bulk of the Asia total. The combined figures also make up close to half of the total private equity investment in China so far in 2015. Last year, the share was 23%, with growth and early-stage

technology deals reaching \$6.7 billion and \$2.3 billion, respectively.

India's numbers are more modest, with growth and early-stage tech deals coming in at \$4.8 billion and \$866 million this year, jointly covering about one third of overall India PE investment. However, the same phenomena are similar – market leaders such as Ola, another

ride-hailing app, and e-commerce marketplace Flipkart are able to raise ever larger private rounds in order to cover the subsidies paid to merchants and consumers so they can continue to build market share.

Didi Kuadi's round was completed at a valuation of \$15 billion to Ola's \$5 billion, but developments in China may yet offer a glimpse of the outlook for India. The question for many investors is how much longer are these companies able to climb the valuation curve while simultaneously burning cash. The answer is not indefinitely, as exemplified by mergers between one-time rivals: Didi Dache and Kuaidi Dache and then online-to-offline (O2O) services providers Meituan and Dianping.

Investors appear to be concentrating their firepower on established players in key verticals such as transportation, food delivery and O2O services, on top of longstanding target e-commerce. Even then, it remains to be seen whether these companies can maintain their position of dominance in a technology sector that is constantly evolving.

Another consideration is the nature and timing of exit. These growth rounds enable early-stage investors to take money off the table, but there is no guarantee these companies will achieve public market valuations that translate into handsome returns for later entrants (and not everyone has downside protection). Chinese smart phone maker Xiaomi remains the leader by some distance in the valuation stakes, having raised \$1.1 billion at valuation of \$45 billion at the turn of the year.

Much long-term faith is being placed in China's public markets and the willingness of local investors to pay a premium for stock in well-known, consumer-facing companies.

This also explains the jump in China buyouts to a record \$8.8 billion in 2015. Announced PE-backed take-private deals involving dating app Momo (which received a bid barely six months after going public in the US) and WuXi

JANUARY

\$200m – Morgan Stanley PE Asia and Sihuan Pharmaceuticals invest \$200m in two Chinese hospitals

\$521m – New Zealand Superannuation Fund and Infratil buy RetireAustralia for \$521m

\$1.1b – China's Xiaomi raises a \$1.1b round led by All-Stars Investment

\$200m – Bull Capital Partners reaches a \$200m first close on its second China fund

25% – Alibaba takes a 25% stake in

India's VC-backed One97 Communications

\$1.55b – JD.com and Tencent invest \$1.55b in China auto e-commerce operator Bitauto

2x – ChrysCapital makes a 2x return as Kotak Mahindra Bank buys ING Vysya at a valuation of \$2.4b

\$1.6b – Yunfeng Capital and other investors invest up to \$1.6b in Guangzhou Baiyushan Pharmaceutical Holdings

\$600m – SoftBank leads a \$600m round for PE-backed Chinese ride-hailing

app operator Kuaidi Dache

\$700m – Chinese online-to-offline services platform Meituan raises \$700m at a \$7b valuation

\$2b – China-based Hillhouse Capital raises \$2b for a global private equity fund

\$362m – Banyan Capital closes its second China VC fund at \$362m

\$350m – Chinese online food-ordering platform Ele.me receives \$350m from CITIC PE, Sequoia, Tencent, JD.com and Dianping

>>>

PharmaTech (completed in mid-December) make up 70% of the capital commitment. More of these transactions – structured with a view to re-listing domestically – are likely to follow.

FUNDRAISING: VENTURE TO THE MAX

Fundraising fails to keep pace with 2014, but VC firms still see enough demand to raised additional capital

IT SPEAKS VOLUMES FOR THE VC

fundraising environment in Asia that the fourth-largest vehicle raised in 2015 was an addendum to an earlier fund. GGV Capital closed its fifth Sino-US fund in May 2015 at \$620 million, but within 12 months had an additional \$457 million to put to work through GGV Capital Select. The top-up fund allowed continued support for portfolio companies that has become so successful – read big and valuable – that they no longer fall within the remit of existing funds, the GP explained.

LPs will see more of GGV in 2016, although probably not for very long. The firm is back in the market looking to raise \$1.1 billion simultaneously across three vehicles: a \$600 million core venture fund, a \$200 million top-up vehicle, and a \$300 million early-stage fund. Industry sources say the multi-strategy vehicle is already oversubscribed and a first and final close is expected early in the year.

GGV is not alone in accumulating extra tranches of capital with a view to re-upping in portfolio companies that are raising larger rounds as they stay under private ownership longer. Although trailing the 2014 total of \$12.7 billion, Asia VC fundraising stands at \$10.1 billion for 2015 so far, and is well positioned to become the third-biggest year on record. Conversely, the number of funds reaching partial or final closes

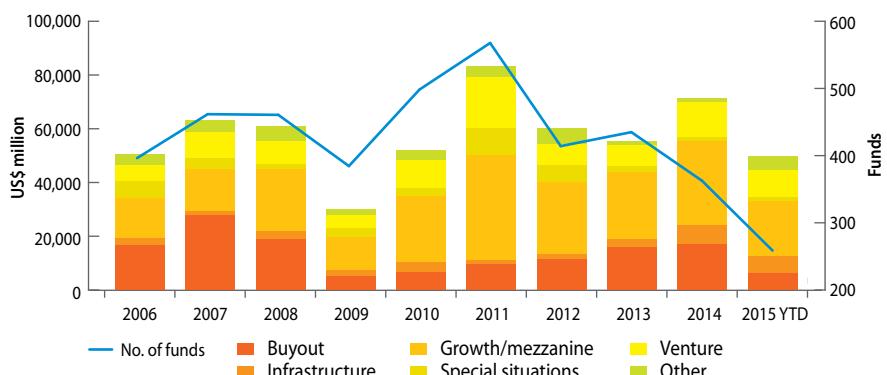
is only about 130, the lowest in a decade. This is evidence of the top-fund effect.

Of every dollar raised for VC in Asia this year, about \$0.50 is earmarked for deployment in China and \$0.20 in India. Singapore is also seeing more activity – fundraising is at its highest in four years – in recognition of its growing status as a technology hub for Southeast Asia, but almost

its third China growth fund, having operated separated venture and growth strategies for several years now, while India's Nexus Venture Partners got \$450 million for a core fund plus a top-up vehicle.

Banyan Capital closed its second China fund at \$362 million and then three months later raised \$100 million for follow-on investments

Asia PE fundraising by fund type



of all of the big rounds are seen in the two larger markets.

A scan down the list of funds raised offers a clear picture of how the industry is thinking. At the top sits Shunwei Capital Partners third US dollar-denominated fund with a corpus of \$1 billion, split equally between a core vehicle and an opportunity fund that will not only make follow-on investments in existing portfolio companies but also back new companies seeking expansion rounds.

Morningside Venture Capital repeated its trick from 2014, raising a core fund, a special opportunity or top-up fund, and an entrepreneurs fund for friends and family, although the quantum of capital was larger – \$660 million this time. Sequoia Capital raised

in Fund I portfolio companies. The explanation, like many others, was that the technology investment opportunity is so great they found themselves deploying capital at a faster pace than expected. Perhaps once the cycle swings there will be less cause for these addendums.

Venture was not alone in seeing a retraction in fundraising activity from 2014. Every major fund type that AVCJ Research tracks – buyout, infrastructure, growth, special situations and venture – is down year-on-year. With \$49.7 billion in commitments, Asia private equity fundraising is lower at this point in 2015 than for any full-year since 2009. It is unlikely to stay that way but matching the 2014 total of \$71.6 billion is not going to happen. The number of funds receiving commits is also small by historical standards.

FEBRUARY

\$1.2b – Hahn & Co. closes its second Korea fund at \$1.2b and raises a \$700m co-investment pool to support the acquisition of Halla Visteon Climate Control Corp

\$450m – EMR Capital reaches a final close of \$450m on its debut Australia resources fund

\$750m – AIF Capital exits its minority stake in India's Famy Care as Mylan Laboratories buys the company for \$750m

\$248m – Carlyle offers \$248m for Tokyo-listed Hitachi Metals Techno

\$2.3b – CPPIB, QIC and Transurban Group back the \$2.3b NorthConnex tunnel project in Sydney

\$1b – Equis Funds Group raises \$1b for its second Asia energy and infrastructure fund, a \$300m follow-on vehicle to Fund I, and \$400m for two existing platform investments

\$230m – Actis commits \$230m to create an Indian renewable energy platform

19 months – Fosun finalizes a \$1.1b acquisition of Club Med, 19 months after submitting a bid

\$421m – Bain Capital agrees to buy Japanese hotel and spa operator Oedo-Onsen for \$421m

57.5% – Vogo Investment sells its 57.5% in Tong Yang Life Insurance as Anbang Insurance Group bought 63% of the company for \$998m

17.5% – TPG and Northstar make another partial exit from BTPN, selling a 17.5% stake to Sumitomo Corp. for \$461.8m

\$3.98b – Baring PE Asia reaches a final close on its sixth fund at a hard cap of \$3.98b

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REVIEW OF THE YEAR

tim.burroughs@avc.com

Concerns about emerging markets economies – particularly that of China – undoubtedly play a role. There is considerable anecdotal evidence that LPs are shying away from Asia in favor of the currently flourishing North American market. There are, however, other factors to consider.

First, fundraising statistics do not capture all of the dry powder available for deployment in the region or offer a clear impression of the willingness to put it to work. LPs of means are

increasingly following bespoke playbooks, setting up separate accounts and allocating more capital for co-investments and perhaps solo direct deals as well.

Second, fundraising fluctuates depending on which GPs are in the market. For example, there was little action for Asia buyout funds in 2009 and 2010 but in each of the four years after that the total increased as the global firms returned with their first regional funds raised since the global financial crisis. The series of closes ended

in 2014, with \$16.9 billion going into buyout vehicles, and in the less populated market of 2015 it has dropped to \$6.2 billion.

Of the largest funds to reach a final close in 2015, much of the \$3.98 billion entering Baring Private Equity Asia's sixth pan-regional fund is classified as 2014 because that is when the GP announced a substantial first close. This leaves RRJ Capital, which raised \$4.5 billion for its third fund and then drop all the way down to Pacific Equity Partners on \$1.5 billion.

However, the buyout statistics could be stimulated early in 2016 with Bain Capital and PAG Asia understood to be in the final stages of raising their latest regional vehicles, each of which could around the \$3 billion mark.

The middle market was the usual combination of a minority of managers that raised rapidly on the back of strong track records and compelling investment stories, and those that struggle. Ascendent Capital Partners with its China investment-plus-advice strategy, Asia energy and infrastructure player Equis

Funds Group, and Anchor Equity Partners, set up by a team of Goldman Sachs alumni in Korea, are arguably examples of having the right approach at the right time, if speed of fundraise is considered.

Meanwhile, the one major Asian jurisdiction to see a year-on-year upturn in fundraising was India, where the likes of Everstone Capital and India Value Fund Advisors achieved final closes at relatively short order.

EXITS: TOUGH ACT TO FOLLOW

After a record 2014, PE exits have been more muted this year, as GPs think more creatively in China

THE ACQUISITION OF CHINA MOBILE

Games & Entertainment Group (CMGE) and DianDian Interactive for a combined RMB13.5 billion (\$2.1 billion), announced in early December, should deliver liquidity to a string of local private equity investors. It is also a microcosm of the broader dynamics of China's PE exit environment.

CMGE was listed on NASDAQ until August, when private equity units of Orient Securities, Changjiang Securities, and Beijing HT Capital Investment completed a take-private. The initial plan may have been a re-listing domestically – through an IPO or a reverse merger – but it never happened. DianDian, meanwhile, spun out from foreign PE-backed FunPlus in 2014 and was supposed to be acquired by a Shanghai conglomerate. This failed to get regulatory approval so the PE arm of a local textiles manufacturer took a stake instead.

The various private equity investors will get \$1.25 billion between them should the China Securities Regulatory Commission (CSRC) greenlight the sale to Zhejiang Century Huatong

Largest final closes by independent US dollar funds, 2015

Fund (geography)	Capital raised (US\$m)
RRJ Capital Master Fund III (Asia)	4,500
Baring Asia Private Equity Fund VI (Asia)	3,988
Asia Alternatives Capital Partners IV (Asia)	1,800
Pacific Equity Partners Fund V (Australasia)	1,516
Navis Asia Fund VII (Asia)	1,500
CPE China Fund II (China)	1,299
IMM Rose Gold Private Equity Fund III (Korea)	1,126
Equis Asia Fund II (Asia)	1,000
Carlyle Japan Partners III (Japan)	973
Anchor Equity Partners Fund II (Korea)	850

Largest final closes by independent US dollar VC funds, 2015

Fund (geography)	Capital raised (US\$m)
Shunwei China Internet Fund III (China)	1,000
Morningside China TMT Fund IV (China)	660
Sequoia Capital China Growth Fund III (China)	625
GGV Capital Select (China/US)	457
Nexus India Capital IV (India)	450
Banyan Partners Fund II (China)	362
WiL Fund I (Japan/US)	354
Accel India IV (India)	305
Quadria Capital Fund (SE Asia)	304
Kalaari Capital Partners III (India)	290

Source: AVCJ Research

MARCH

\$200m – VC-backed Indian ride-hailing service Ola buys smaller rival TaxiForSure for \$200m

\$320m – JD Capital and Beijing Water Business Doctor launch a \$320m China environment fund

\$750m – CVC makes a partial exit as Hong Kong Broadband Network raises \$750 million in its Hong Kong IPO

\$4.8b – China launches the state-backed \$4.8b Green Ecological Silk Road Investment Fund

\$2.5b – Bain Capital launches its third Asian fund with a \$2.5b target and a hard cap of \$3b

\$5.7b – Australia's IFM Investors agrees to pay \$5.7b for a toll road concession in northern Indiana

\$6.3b – KKR, Värde Partners and Deutsche Bank agree to buy GE Capital's Australia and New Zealand consumer lending unit at a valuation of \$6.3b

\$170m – Mizuho Capital Partners launches its third Japan mezzanine fund with

initial commitments of \$170m

\$170m – KKR, Baidu and Coatue invest \$170 million in Chinese online used-car auction platform Uxin

\$750m – Vivo Capital closes its eighth fund, which targets healthcare companies in China and the US, at \$750m

\$305m – Accel Partners raises \$305m for its fourth India-focused fund

\$483m – BlackPine, CDH Investments and CICC invest \$483m in Chinese peer-to-peer lending platform Lufax

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REVIEW OF THE YEAR

tim.burroughs@avc.com

Group. The new buyer has little or no existing interest in mobile gaming. Rather, the Shenzhen-listed company sees the acquisition as a means of pivoting away from low-growth automotive plastic parts manufacturing to the high-growth internet industry.

A total of 91 China private equity exits have been announced so far in 2015, generating proceeds of \$10.2 billion. The last time full-year figures came in lower than these it was 2009. The weakness is largely due to a substantial drop off in shares sales at IPO or on the open market: 31 transactions and proceeds of \$3.4 billion compared to \$7.3 billion across 80 transactions in 2014.

In the absence of reliable public markets – the CSRC reintroduced the ban on new share offerings, which previously lasted most of 2013, for a few months in the middle of 2015 in response to a collapse in stock prices – private equity investors have turned to trade sales. At 51 deals and \$5.5 billion in proceeds, they account for more than half of all exit activity. Trade sales have picked up over the last three years, but this is the first time they have made up more than half of all China exits.

Four deals are responsible for about half of

the cumulative trade sale value: the two gaming transactions, plus Shanghai Jin Jiang International acquisition of budget hotel operator 7 Days Inn and Shenzhen Energy's purchase of China Hydroelectric. All of them are profitable and three were previously been privatized offshore; other companies in similar situations – notably Focus Media and Giant Interactive – have opted to re-list domestically through reverse mergers, but trade sales tend to be quicker and easier.

Furthermore, these trade sales have all been made to mainland-listed companies. Half of the 51 trade sales announced in 2015 share this characteristic – a remarkable total given that until 2014 these buyers were responsible for a small minority of sales. Like Century Huatong, many see M&A as a short cut to align themselves with the modern economy.

China exits account for only about one fifth of the regional total, but the country has a wide-ranging impact, whether as a buyer of PE-owned assets (Vogo Investment and Archer Capital's exits of Tong Yang Life Insurance and HealthCare Australia to Chinese strategic players are among the largest trade sales of 2015) or a factor weighing on investor sentiment in public markets.

The opening months of 2015 saw a host of IPOs, block trades and sell downs as investors rushed to capitalize on buyout public market valuations. Open market exits by GPs across Asia stand at a respectable \$10.2 billion for the year so far – better than 2014, though lower than each of the four years before that – but they tailed off sharply in the middle of the year as shockwaves from the ruptures in China's markets were felt elsewhere.

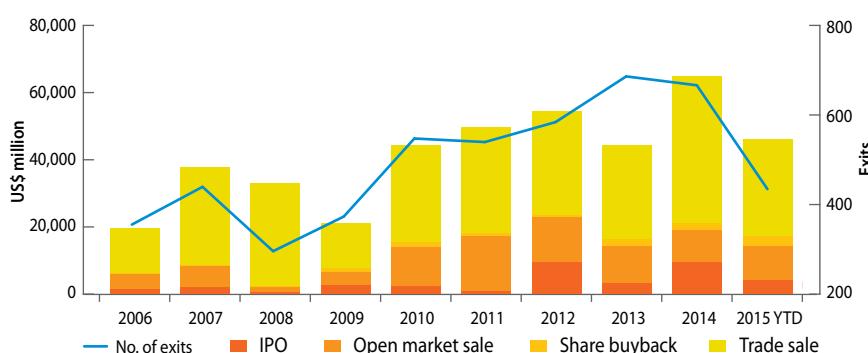
Similarly, exits via IPO were down as were the gross proceeds of private-equity backed offerings. China was a key factor here with IPO proceeds down by nearly 50% on 2014 – there was no bumper deal along the lines of Alibaba Group – but most major markets saw a slowdown in activity. The one bright spot is India, where there have been more PE-backed offerings than in the previous three years combined, although that is working from a relatively low base.

In all, IPOs have raised \$38.3 billion, down from \$70.1 billion in 2014, while exits stand at \$46.2 billion, compared to \$64.9 billion the previous year. The exits total is not bad by historical standards, but replicating the success of 2014 was always going to be tough – it was a record year for Asia that also saw the region's largest-ever IPO and largest-ever trade sale.

In addition to the Alibaba-shaped hole in the IPO numbers, there was nothing on the same scale as Oriental Brewery. As such, trade sales for 2015 stand at \$28.9 billion, above the 10-year average but well short of the \$43.7 billion posted in 2014.

The largest deal is still pending regulatory approval, but it would be a boost for the industry if it goes through. Morgan Stanley Private Equity Asia and Far EasTone Telecommunications agreed to buy China Network Systems from MBK Partners in July at an enterprise valuation of \$2.3 billion, potentially bringing an end to a protracted sale process in a challenging market that saw two earlier bids flounder. ▀

Asia private equity exits by type



Source: AVCJ Research

APRIL

\$3.3b – A Chinese consortium led by Go Scale Capital agrees to buy 80.1% stake in Philips LED unit at a valuation of \$3.3b

\$850m – A group of PE and strategic investors invest \$850m in online-to-offline services platform Dianping at a valuation of \$4.05b

\$2.1b – Apache agreed to sell its Australia oil and gas exploration and production business to Macquarie Capital and Brookfield Asset Management for \$2.1b

150 – Asia Alternatives raises \$1b for its

fourth co-mingled fund-of-funds and \$800 million in separately managed accounts from approximately 150 LPs

\$496m – Affinity Equity Partners buys Nine Entertainment's live events and ticketing business at a valuation of \$496m

\$1.26b – Hony Capital completes its exit from CSPC Pharmaceutical, selling \$1.26b worth of shares

\$424m – Carlyle exits Haier Electronics Group through a \$424m block trade

\$400m – DST Global leads a \$400m

round of funding for India ride-hailing app Ola at valuation of \$2.4b

\$154m – Brandon Capital closes its latest Australia life sciences fund at \$154m

\$3b – I Squared Capital closes its debut global infrastructure fund at \$3b

\$360m – KKR and Anchor Equity Partners buy a controlling stake in Korea's Ticket Monster for \$360m

20% – Fosun takes a 20% stake in Cirque du Soleil, with TPG Capital holding 60%

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REVIEW OF THE YEAR

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Zeitgeist: The year in quotes

HAVING INFLUENCE AS A MINORITY INVESTOR

"You sit in the back seat, not the driver's seat. Before the investment committee takes the decision to make an investment you have to judge whether you are on the same page as management and the founder. Otherwise a minority position will be a weaker position, even if you have the ability to make operations stronger"

Mary Ma, Boyu Capital (right)

"Having an alignment and common interest is the most critical part in minority situation. The other thing is that you can't have a mindset of 'We know

better, we step in and we want to transform the company.' You really have to focus on one or two things that really matter, and then you can help and bring in expertise as a minority shareholder, and create traction for change"



David He, PAG

"In many of these Asian family companies, having equity control in many cases is not the same as operating control. When working with a founder who has a minority stake you have to be careful to earn the right to help him in the way he sees fit. The demarcation line between growth capital and buyout is fuzzier than in the West"

Emmett Thomas, Advantage Partners

AUSTRALIAN LPS, FEES AND PE ALLOCATIONS

"Australia is beginning to look like New Zealand on this issue where superannuation funds are surrendering the opportunity to make returns to which their members are rightfully entitled"

Tim Sims, Pacific Equity Partners

"You go in to talk about fundraising but you spend 20-30 minutes talking about fees. It might be good therapy for investors to get it off their chests, but are you in this asset class or not? If you are in then it's up to you to deal with the fees"

John Brakey, Principle Advisory Services

"Instead of categorizing LPs as industry, corporate and retail funds, we should categorize them by membership demographics, cash flows and member switching. If you have these three characteristics [in your favor] it gives you a huge ability to do private equity and other long-term investments"

Neil Stanford, HOSTPLUS

THE JOKOWI EFFECT IN INDONESIA

"Jokowi has been very lucky. Oil prices are low, he is loved by the people... he really is a rock star. Everyone asked him during the election campaign how he was going to reform fuel subsidies and he said he would do it in three years, one third each year. But in the first three months he has completely reformed the system. Maybe it is better to be lucky than smart"

Sandiaga Uno, Saratoga Capital

CHINA TECH VALUATIONS AND EXITS

"There are a few unicorns emerging in China and their M&A activity is very vibrant. Asian markets, including Hong Kong, and the US market have given rich valuations to many VC-backed companies and people have made a lot of money. Therefore, people are getting greedier and greedier, which is driving a lot of deal activity and pushing up valuations"

J.P. Gan, Qiming Venture Partners

"The GEM board is open for business again and there is a lot of excitement about the NEEQ [National Equities Exchange and Quotations], the New Third Board. In 4-5 years' time you will see that engine is growing as well. A lot of the investment is not necessarily from the US dollar funds, but also on the renminbi side. For the first time in a long while, renminbi funds have viable exit paths. This is an interesting time"

Jeffery Chin, Vickers Venture Partners

"In the past, there was a lot dumb money. People invested in the areas in which they didn't have a lot of experience. At least now in the early stage, people have been working in the internet industry for a long time. Entrepreneurs have some exits and then they put the money back in. The money is smarter. Secondly, many of these companies have revenue, which is nice"

William Bao Bean, SOS Ventures

GREATER ACCEPTANCE OF PE BUYOUTS IN JAPAN

"If you look back 10 years, MBO was a dirty word, owners hated the idea. Now owners are happy to speak about it and there is no negative sentiment, they understand GPs can help grow their company"

Jun Tsusaka, NSSK

"It is more of psychological change that is driving these Japanese companies. Buyout funds are no longer seen as vultures seeking arbitrage, they are now considered as a good counterparty not only because of the capital they bring, but also because of the operational support they offer"

Hideo Nagatsuyu, Advantage Partners

"It can often take time, there isn't much transparency, and in many cases it doesn't always lead to a deal. But when dealing with founders

MAY

\$652m – Bain Capital-owned MYOB raises \$652m in its Australian IPO

\$1.9b – Hua Capital, CITIC Capital and Goldstone Investment agree to buy OmniVision Technologies for \$1.9b

\$200m – NewMargin Ventures leads a \$200m round for Panshi Information Tech

\$280m – Unison Capital closes its debut Korea fund at \$280m

\$8b – Accel invests \$75m in Chinese drone maker DJI at a valuation of \$8b

\$1.3b – CITIC Private Equity closes its second US dollar-denominated fund at \$1.3b

\$500m – Chinese online package tour operator Tuniu raises \$500m from a consortium of PE and strategic investors

\$177m – Babson Capital closes its latest Asia mezzanine fund at \$177.2m

\$3b – PAG targets \$3b for its Asian fund

20.37% – TPG Capital sells its 20.37% stake in India's Shriram City Union Finance to Apax Partners for \$360m

\$1.6b – A Macquarie-led consortium agrees to buy Crown Castle's Australia telecom towers unit for \$1.6b

\$457m – GGV Capital raises a \$457m fund for follow-on investments in existing portfolio companies

51% – Tsinghua Holdings buys a 51% stake in Hewlett-Packard's China data-networking business for \$2.3b

\$764m – QIC and CalPERS create a \$764 million) Asia-Pacific focused infrastructure partnership

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we can build trust and there is a high likelihood of realizing a deal" *David Gross-Loh, Bain Capital*

THE PROSPECTS FOR PRIVATE EQUITY IN THE PHILIPPINES

"Coming out of the global financial crisis the Philippines was one of the only countries in the world that could claim to have seen 42 consecutive quarters of positive GDP growth. The government did not have a spending problem; there is a surplus of foreign currency and the debt to GDP ratio is currently 45%, which is staggering when you consider what the global average is" *Brian Hong, CVC Capital Partners*

"What is remarkable to us was that even though the stock market has 50% foreign participation we had an opportunity to be one of the first movers in the growth capital space" *Anders Stendebakken, Brummer*

"We don't see the volume of investment we would expect given all the positive dynamics in this market. Over the last three years PE investment volume has been less than \$1 billion, which is less than half of 1% of GDP - low in an Asian context ... If you wanted to start a private equity platform today you would put the Philippines on your list, but you have to be patient. It is not a 3-5 year window; it is a 10-25 year window" *Todd Freeland, Asian Development Bank*

CHINA TRADE SALES

"I don't know if you can be confident that the market will still be at the current valuations three or more years from now. We cannot be dependent on A-share exits. The best channel is a Hong Kong listing or a trade sale" *Lihong Wang, Bain Capital*

"It is a very long process and the return will not be as good as if we had listed the company directly on the A-share market. But when you

factor in all the other considerations that was the best option for us" *Cathy Zhang, China International Capital Corporation*

"The one-year shutdown in the domestic IPO market has made GPs realize that exit opportunities need to be grasped and the public markets are not always open. If a company goes public it should generate the highest returns but there are other considerations. We see GPs maturing and looking at a diverse range of exit paths" *Bonnie Lo, NewQuest Capital Partners*

CORPORATE CARVE-OUTS IN KOREA

"Everyone hears about the 6-7 families that control 60-70% of GDP but beneath that tier there is a substantial effort focused on core assets. We are having conversations about where they want to allocate capital in their portfolio businesses and what they want to do because they cannot add value anymore" *Andrew Shinn, PAG (right)*

"There are some very smart people in these companies' strategy and M&A departments. They are looking at each business from an ROE (return on equity) perspective. They want to exit the low ROE businesses and focus on their core areas and compete with global players" *Joseph Lee, IMM Private Equity*



CHANGES IN INDIA PRIVATE EQUITY

"We've held back in putting money into the market, one, while we wait for that capital overhang to clear itself, but two, to allow us to see the actual winners start emerging out of this industry. And I think we're beginning to see that now" *Steve Byrom, Future Fund*

"There were some GPs who were aware of the risks, and would tell others about it, but

sometimes the LPs would overlook that, saying, 'No, that's fine, we see that everywhere else.' But it was a real risk in the Indian market" *M.K. Sinha, IDFC Alternatives*

"Specialization of the managers has also increased. Most group managers focus on a few sectors, and they don't do things opportunistically. So while it has its ups and downs depending on the cycle, I think over the long term having specialization and actually involving yourself with those companies is becoming important" *Alagappan Murugappan, CDC Group*

JAPANESE LPS AND PRIVATE EQUITY

"We should stop treating PE as a special asset class. It would be more suitable if PE was seen

as an investment in the same category as equities, rather than taking the traditional approach of putting it in a separate box. That approach is outdated" *Hidekazu Ishida, Osaka Gas Pension Fund*

"For those of us who experienced the Lehman shock and the bursting of the IT bubble, it is a frightening asset. The majority of pension fund managers today know about the Lehman shock but worked in a different department - they did not experience prices plummeting day after day, so they think traditional assets are sufficient" *Yoshisuke Kiguchi, Okayama Metal & Machinery Pension Fund*

"If you have a buyout involving an unlisted company, at an appropriate valuation, and a good GP that can spend three to five years providing on-hands support, that is perhaps the most certain way to generate good returns" *Kengo Torii, Denso Pension Fund investment group*

JUNE

\$313m – Quadrant PE agrees to buy Australia-based VIP Petfoods for \$313 million

\$500m – Silver Lake contributes \$330m to a \$500m round for China's Qunar

\$1b – SoftBank commits \$1b to South Korean e-commerce platform Coupang

\$250m – RRJ Capital invests \$250m in logistics player Shanghai Yupei Group

7x – 3SBio raises \$711m in its Hong Kong IPO, giving a 7x paper gain to CITIC PE

\$1.45b – Hony Capital and CITIC

Goldstone cover nearly 75% of a \$1.45b placement by Bright Dairy

\$304m – Quadria Capital closes its maiden South and Southeast Asia healthcare fund at \$304m

\$1.1b – KKR-owned Panasonic Healthcare agrees to buy Bayer's diabetes care unit for \$1.15b

\$500m – Shoreline Capital raises \$500m for its third China special situations fund

\$931m – Zhong An Online Property

Insurance raises \$931m from a group of PE investors

\$400m – Advantage Partners launches \$400m fund targeting Asia ex-Japan

\$9.9b – China Renaissance and Sequoia Capital support a buyout of Qihoo 360 Technology worth \$9.9b

\$500m – The Carlyle Group commits \$500m to a South Asia energy platform

\$139m – Australian turnaround specialist Allegro Funds closes its second vehicle at \$139m

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New faces, old faces: Asia PE people moves

A selection of the transfers, promotions, arrivals and departures in the private equity community in 2015

LIMITED PARTNERS

ADAMS STREET PARTNERS Piau-Voon Wang relinquishes his duties as partner and transitions to an advisory role, with Yar-Ping Soo appointed head of the Asian investment team

CAPITAL DYNAMICS Markus Ableitinger resigns from his position as managing director and co-head of Asia Pacific investment management. Kazushige Kobayashi becomes sole head of Asian investments

CHINA INVESTMENT CORPORATION

Zhichun Xie, executive director and president of Central Huijin Investment, departs

GOVERNMENT PENSION INVESTMENT FUND

Atsushi Ikari is appointed director general of the investment strategy department, replacing Tokihiko Shimizu

HAMILTON LANE Sung-Ji An relocates to South Korea from Hong Kong to head the newly-opened Seoul office

HARBOURVEST PARTNERS Sebastiaan van den Berg, an Asia-based managing director, leaves the firm. Minjun Chung and Kanji Takenaka, who focus on South Korea and Japan, respectively, are promoted to principal, with Chung also named head of the newly-opened South Korea office

HQ CAPITAL AUDI INTERNATIONAL, the PE arm of the Harald Quandt family, is folded

under the HQ Capital brand alongside its sister alternative investment businesses

JAPAN POST BANK Tokihiko Shimizu, previously of Government Pension Investment Fund, is appointed head of the newly-created private equity division

MLC PRIVATE EQUITY Andrew Kwee joins from LGT Capital Partners to lead the newly-opened New York office

NATIONAL PENSION SERVICE Chairman Kwang Choi resigns and CIO Wan-Sun Hong's term is not renewed following tensions over strategy

NEUBERGER BERMAN Kent Chen, formerly a manager at the Hong Kong Monetary Authority, is appointed managing director and head of Asia Pacific private equity

OTPP Nicole Musicco moves to Hong Kong as managing director for Asia Pacific, while Olivia Ouyang, formerly managing director and head of emerging markets at China Investment Corporation, joins as a Hong Kong-based director of funds and co-investments



Yar-Ping Soo



Kazushige Kobayashi



Tokihiko Shimizu



Nicole Musicco



GENERAL PARTNERS

BLACK SOIL CAPITAL PARTNERS The agriculture-focused firm is launched by Chang Sun, formerly Asia managing director at Warburg Pincus

THE BLACKSTONE GROUP Liping Zhang, previously co-CEO of Greater China at Credit Suisse, joins as senior managing director and Greater China chairman. Michael Chae, previously head of Asia and international PE, becomes CFO

THE CARLYLE GROUP Rajiv Louis is fired after being sanctioned for insider-trading activities while working at UBS, with Sunil Kaul promoted to head of Southeast Asia buyout operations. Simon Moore, an Australia-based managing director, prepares to leave the firm once the current fund is invested. Japan-based Hiroyuki Otsuka is promoted to partner, while Jeffrey Gui, of the Asia buyout team, and India growth executive Mahesh Parasuraman become managing directors. Parasuraman then departs to launch his own fund

CDIB CAPITAL Steven Wu joins from China Venture Management as managing director

JULY

\$250m – Warburg Pincus and Legend Capital join China Auto Rental in a \$250 million investment in Ucar

4 months – Ascendent Capital closes its second China fund at \$600m after four months in the market

\$967m – Wanda, Tencent and CITIC Capital commit \$967m to Tongcheng Network Technology

\$400m – Hosen Capital targets \$400m for its second China food and agriculture fund

\$1b – Shunwei Capital closes its third US dollar-denominated VC fund at \$1b

\$245m – KKR and CDH Investments sell their stake in Success Dairy to China Modern Dairy for \$245m in stock

\$1.4b – Pacific Equity Partners agrees to sell Energy Developments to Duet Group for \$1.4b

\$500m – Temasek Holdings and UOB form an Asia joint venture that will provide \$500m in venture debt

\$1b – GSR Capital and Go Scale Capital

raise \$1b for a China cross-border buyout and M&A fund

\$401m – Paine & Partners-controlled Costa Group raises \$401m in its Australia IPO

\$700m – India Value Fund Advisors closes its fifth fund at the hard cap of \$700m

\$2.3b – Morgan Stanley Private Equity Asia and Far EasTone agree to buy China Network Systems from MBK Partners for \$2.3b, including debt

\$850m – Anchor Equity Partners closes its second Korea fund at \$850m

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REVIEW OF THE YEAR

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CHAMP PRIVATE EQUITY Graham Brooke, previously of CVC Capital Partners, joins as a managing director. Bill Ferris, co-chairman and co-founding partner, is appointed chairman of Innovation Australia



Chang Sun



Joe Bae



Jun Tsusaka



Ben Gray



CHINA INTERNATIONAL CAPITAL CORP Mingjian Bi is named CEO, having previously served as a partner at Hopu Investment

CITIC CAPITAL PARTNERS Haipeng Zhang is appointed as a senior managing director to focus on healthcare

CVC CAPITAL PARTNERS Atsushi Akaike and Yukinori Sugiyama, both formerly of Advantage Partners, become partner and senior managing director, respectively. Steve Lim, ex-CEO and managing director of J.P. Morgan in South Korea, joins as chairman

DST GLOBAL Shou Zi Chew, previously a partner with the firm, becomes CFO of smart phone maker Xiaomi

EIG GLOBAL ENERGY PARTNERS Yangyang Liu, formerly of China Investment Corp, joins as managing director in the Hong Kong office

EVERSTONE CAPITAL Roshini Bakshi and Rajev Shukla, formerly of Disney and Unilever, respectively, become managing directors on the operations team. Bhavna Thakur joins as head of capital markets and exits

ICICI VENTURE Prashant Purker is appointed managing director and CEO, replacing Vishakha Mulye, who moves to parent group ICICI Bank

IDG VENTURES Founder and Managing Director Manik Arora leaves the firm

JUNGLE VENTURES David Gowdey, previously of TPG Growth, joins as managing partner

KKR Joe Bae relocates to the US where he continues to lead the Asia business, while Justin Reizes, head of Australia, retires

NAVIS CAPITAL PARTNERS Hugh Dyus, formerly head of Asia private equity at Macquarie Funds Management, joins as a partner based in Hong Kong

NEW SILK ROUTE Arvind Malham is promoted from principal to partner

NSSK Jun Tsusaka launches the Japan mid-market firm with fellow ex-TPG Capital colleagues

PERMIRA Permira Ryotaro Fujii, formerly of KKR, becomes managing director and head of Japan, with Yoichiro Furuse named Japan chairman

QIMING VENTURE PARTNERS Healthcare specialist William Hu is promoted to managing partner

QUVAT MANAGEMENT Tom Lembong, CEO and managing partner, leaves to become trade minister of Indonesia

SAIF PARTNERS Alok Goel, ex-CEO of Indian mobile recharge service FreeCharge, becomes managing director

SARATOGA CAPITAL Sandiaga Uno, one of the founding partners, scales back his corporate roles to focus on politics, but there is no change in his job title or commitments at Saratoga Capital itself. Eri Reksoprodjo and Nigel Khoo, two of

Saratoga's five partners, leave the firm

SHAW KWEI & PARTNERS Brian Lau joins as a Hong Kong-based executive director from boutique investment bank Prometheus

SOFTBANK Nikesh Arora, CEO of SoftBank Internet & Media Inc (SIMI) is named president and COO, with Masayoshi Son continuing as CEO

STANDARD CHARTERED Viswanathan Shankar, CEO for Europe, Middle East, Africa and Americas, leaves to set up his own private equity fund.

TA ASSOCIATES Daisy Cai, formerly an executive director at Goldman Sachs, becomes a director in the Hong Kong office

TPG CAPITAL ASIA Managing Partner Ben Gray prepares to exit the firm once the current fund is invested to set up his own Australia-focused GP. Zubrin Irani, previously of United Technologies Corporation, becomes a managing director in the Asia Pacific operations group. Anjali Bansal is appointed partner at TPG Growth

UNITAS CAPITAL The four-person Korea team, led by Eugene Suh and Jay Lee, spins out to raise an independent fund

VERTEX VENTURES Ben Mathias joins from New Enterprise Associates as managing director and head of India

VISION KNIGHT CAPITAL Managing Partner Pak-Seng Lai leaves to join 3W Partners Capital

AUGUST

\$405m – CDIB Capital reaches a final close of \$405m on its maiden Asia fund

\$179m – Navis Capital Partners sells ECO Industrial Environmental Engineering to Beijing Capital Group for \$179m

\$300m – All-Stars Investment leads a \$300m round for vacations rental site Tujia

\$290m – EQT Partners exits Classic Fine Foods to Metro Group for \$290m

\$1b – IDG and Carlyle invest \$1b in online real estate portal SouFun Holdings

\$600m – CDH Investments targets \$600m for a China mid-market fund

\$135m – Lightspeed Venture Partners closes its debut India fund at \$135m

\$659m – CITIC Capital Partners and Crestview Partners sell Stackpole to Johnson Electric for \$659m

\$1.7b – The Carlyle Group exits its stake in Ta Chong Bank through Yuanta Financial's \$1.7b acquisition

\$1b – Black Soil Capital Partners launches a China agriculture fund with a target of \$1b

\$500m – India's Snapdeal raises \$500m from SoftBank, Foxconn and Alibaba at a valuation of \$5b

\$350m – Didi Kuaidi and CIC join a \$350m round for Southeast Asia's GrabTaxi

\$200m – Denham Capital forms \$200m Southeast Asia energy platform with Nexif

\$630m – Chinese online food-ordering platform Ele.me raises \$630m

\$650m – Providence Equity Partners exits World Triathlon Corp. to Dalian Wanda Group for \$650m

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REVIEW OF THE YEAR

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Predictions for 2016

From Australia to China and buyouts to venture, industry participants give their perspectives on the year to come for fundraising, investments, and exits

MOUNIR GUEN, CEO AT MVISION, ON KEY TRENDS IN ASIA AND GLOBALLY:

There was a habit in the early 2000s of using fundraising as a barometer for the health or activity levels in the industry. Today it is very much a reflection of who is in the market – if big funds are in the market, statistics will be high – but not a reflection of activity or investor interest. Fundraising statistics also don't pick up a lot of the direct done by investors, whether it is through co-investment or direct.

The only way many investors will be able to achieve their return targets, and in a way that gives them more safety, is through geographic diversity. They are quite highly concentrated in the US and somewhat in Europe, but they are still very light on Asia. And when you look at the absorption capability of a lot of these markets, it is limited. In India, for example, the larger funds are \$500-700 million in size and you can count on two hands the number of them in the market. If you go to Japan, Korea, India or Southeast Asia, there are no local funds of \$3 billion or more, but they will come.

The dynamics of change coming out of Asia – for example, corporate activity out of Japan and Korea, the powerful positioning of China – are heading in the right direction. And underlying that movement is very strong asset growth within Asian institutions. Assets are growing because of the demographics in those countries and the strong consumer-related aspects associated with that. The most interesting markets over the next 12 months in terms of new capital will be insurers in China, pension plans, sovereigns and insurers in Korea, and insurers in Taiwan.

Something to watch in the US in particular is the movement from defined benefit (DB) to defined contribution (DC). A large number of corporate pension plans in the US used to be DB, with the liabilities held on the balance sheets of those institutions. By moving to DC it completely changes the risk dynamic and also comprises the return choice that the capital might have. With DC, any vehicle that allows access to private equity has to remove the j-curve effect and this requires a reliance on building exposure either through an existing listed vehicle or a secondaries pool. That structural challenge is about to be opened up.

FRANK TANG, CEO OF FOUNTAINVEST PARTNERS, ON CHINA:

I don't think 2016 will be too much different from this year. There will be a mixed view on China's economic slowdown, given the overall weak market sentiment, as well as stock market and currency volatility. On the other hand, a lot of emerging sectors are still growing, in particular in the areas of internet, consumer and lifestyle. While it's difficult to predict how many China-focused GPs will go back to the market to raise funds, there are also mixed views towards China from LPs. They are concerned about GDP growth.

Several private equity firms are making

investments in late-stage technology companies and I think this will continue. In addition, there is an increasing number of China take-private deals. Hong Kong and the mainland present attractive markets for them to relist, so I expect this trend will also continue next year.

The activity of raising renminbi funds to support take-private deals is already happening, especially for companies in restricted industries such as the internet. For internet companies being taken private, renminbi funds will play an increasing role. FountainVest previously supported the Focus Media take-private. However, Focus Media wasn't in a restricted industry; it's an advertising business and 100% foreign ownership is permitted. As a result, there was no issue of renminbi funds or US dollar funds. That's the same for companies operating in the hotel business, for example. But internet companies have traditionally used VIE (variable interest entity) structures to list overseas. When they come back to China, it poses a problem because VIE structures are not allowed in China. That's

where the renminbi funds will come in.

In terms of exits, I think the environment will be generally improved following the gradual opening up of the capital markets. A new listing market called the Strategic Emerging Industries



Mounir Guen



Frank Tang

SEPTEMBER

\$7.37b – PE-backed Focus Media identifies a new shell for its \$7.37b China reverse listing

40% – Baring PE Asia acquires a 40% stake in Weetabix from Bright Food Group at a valuation of \$2b

\$2.5b – China's HNA Group agrees to buy PE-backed Avolon for around \$2.5b

\$377m – STIC Investments and National Pension Service back CJ Korea Express Corp's acquisition of Rokin Logistics

\$6.4b – An MBK Partners-led consortium agrees to buy Homeplus at an enterprise valuation of \$6.4b

\$3b – China-based ride-hailing app operator Didi Kuaidi raises \$3b at a valuation of around \$15b

\$290m – Kalaari Capital closes its third India VC fund at \$290m

\$730m – Everstone Capital closes its third India-related fund at \$730m

\$1b – Carlyle closes its third Japan fund at nearly \$1b

2 – Two super funds support Blackbird Ventures' \$143m Australia VC fund

\$387m – Blackstone agrees to pay \$387m for Serco India business process outsourcing operations

\$223m – FountainVest Partners leads \$223m round for China online real estate platform Fangdd.com

\$1.5b – Pacific Equity Partners closes its fifth Australia and New Zealand fund at \$1.5b

\$545m – ADV Partners closes its debut Asia special situations fund at \$545m

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Board will probably come into operation late next year. It's going to be a significant movement for China to go from the current approval-based system to a registration-based system. This will help open-up in the A-share markets, is good news for private equity firms seeking exits. Regarding the New Third Board, it is a little bit unclear to me how this market is going to develop, but it has been generally helpful in terms of market sentiment.

KYLE SHAW, FOUNDER AND MANAGING DIRECTOR OF SHAW KWEI & PARTNERS, ON ASIA MID-MARKET BUYOUTS:

There will be a relatively little growth in the overall economy. I don't think it will be bad or particularly good, I think it's just going to be kind of the same globally. Having said that, certain areas are more exciting and benefit from higher demand growth and opportunities for change. For example, logistics and manufacturing could be exciting. But it's really about making high-quality products. I am less interested in garments or sport shoes for which you rely on low-cost, low-wage operators in Indonesia, Myanmar and Bangladesh. It is more interesting to invest in places such as Malaysia, Singapore, China and

“We have seen some kind of correction to that trend in 2015, because the risk - whether it's commodities, currency or emerging markets exposure - has come through”

– Karam Butalia

Thailand, where you have some technical people making high value-added products.

In terms of deal size, I think 2016 will present good for opportunities for smaller deals. There are a lot of business owners or managers who will eventually retire and don't necessarily have a clear succession plan. If an IPO is not an option, they need to sell. Another factor is that an individual can run a business generating \$20-50 million in revenue with a small team; some may put together a few good managers and get to a few hundred million. But it is almost impossible for them to go beyond that, because they don't have the right financial controls, corporate governance and other practices. We can come in and take companies to levels that they just can't reach by themselves any more.

Meanwhile, multinationals are also looking for acquisitions in Asia, so trade sales will become a good possibility. A lot of companies probably need a transition period from being controlled by an owner-manager to a private equity firm, and a trade buyer. And a trade buyer probably isn't ready to source deals on its own in the region. We see a lot of potential in terms of repackaging businesses and transforming them into attractive candidates for those trade buyers.

KARAM BUTALIA, CO-FOUNDER OF KV ASIA CAPITAL, ON SOUTHEAST ASIA:

2015 has been a difficult year to pin down deals because of so many moving parts – exchange rates have swung around, commodity prices have swung around (and Southeast Asia is a net exporter of commodities), and the China slowdown has also affected business. If you



Kyle Shaw



Karam Butalia

added it all together, by the time you had done due diligence on many businesses, the prospects did not justify the price. We are a lot more optimistic about 2016.

The world all over is facing a lot of liquidity and investors are being driven to more and more risk globally and in all asset classes. We have seen some kind of correction to that trend in 2015, because the risk – whether it's commodities, currency or emerging markets exposure – has come through. We try to put capital to work in a risk efficient manner and we think some of the froth has been taken out of the market. Malaysia is more fairly priced now, but Indonesia has some way to go – the risk efficiency is still not there. We are more hopeful that pricing will come in line with what is the

right capital allocation. We feel the correction will come sometime during 2016.

We have four key sectors: healthcare, consumer-related, energy services, and light manufacturing or precision engineering. With commodity prices declining, we expect to see a lot of winners and losers in energy services. Another trend we see is that some countries are becoming more inward-looking. We are positive about the ASEAN economic community but the non-tariff barriers we see on the ground require a lot of work.

GEOFF HUTCHINSON, MANAGING DIRECTOR AT PACIFIC EQUITY PARTNERS, ON AUSTRALIA AND NEW ZEALAND:

We have agreed to New Zealand deals Manuka Health and Academic Colleges Group in 2015, and earlier in the year in Australia we bought Pinnacle from Kerry Group. The pipeline has been

OCTOBER

\$4.5b – RRJ Capital closes its third China and Southeast Asia-focused fund at \$4.5b

\$835m – Philippines-based Monde Nissin agrees to buy Quorn Foods from Exponent PE and ICG for \$835m

\$248m – FountainVest Partners and CMC Capital Partners-backed IMAX China raises \$248m in its Hong Kong IPO

\$600m – Vertex Ventures gets \$600m from Temasek Holdings for investments in China, the US and Israel

\$300m – Falcon House Partners targets \$300m for its second Indonesia fund

\$1b – CMC Capital targets \$1b for its second China media-focused fund

18 years – Electra Partners exits its stake in Zensar Technologies for \$129m after an 18-year holding period

\$400m – China's CSC Group commits \$400m to start-ups on AngelList

\$300m – KKR, Alibaba Group and Ping An invest \$300m in online-to-offline services platform 58 Daojia

\$252m – GIC Private agrees to buy India's Greenko for \$252m

13% – Apollo sells a 13% stake in Nine Entertainment to WIN Corp. for \$139m

\$1.17b – ATC agrees to pay \$1.17b for 51% stake in Viom Networks, facilitating partial exits for IDFC Alternatives and Macquarie

\$1.1b – GGV Capital targets \$1.1b for three China and US-focused venture funds

\$177m – PE-backed Café Coffee Day raises \$177m in its India IPO

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healthy this year and it is looking good for 2016.

Has deal flow been weakened by companies going IPO? That doesn't really reflect our experience. There were one or two deals at the margin in 2014 that we would have liked to invest in that ended up going public instead. The IPO market has been open for good businesses, but not those with problems – and we often look for businesses that aren't perfect because we can help fix those problems.

One quarter of the deals we have done were public to private, half have been carve-outs, and a quarter from private vendors. We are looking for businesses with strong competitive positions where we have a view we can drive profit growth. These opportunities are typically independent of market cycles. Often decisions to sell businesses are more strategic than cyclical. For example, Australia was the only place in the world Kerry made prepared bakery goods, so Pinnacle was a non-core subsidiary.

While we are sector agnostic, we would be reluctant to do mining, but maybe still mining services. We will try to minimize our exposure to any industry where there are external factors that can overwhelm what we have control over – mining and commodity prices, agriculture and grain prices and weather events. That aside, we will look at most industries. We see quite a bit in consumer, business and industrial services, and now also healthcare and education.

SHINICHIRO KITA, SENIOR PARTNER AT ADVANTAGE PARTNERS, ON JAPAN:

We have completed six deals so far in 2015 and expect another to close in December.

Particularly in the mid-market in Japan, we see a lot of attractive deal flow. Two of our deals are corporate carve-outs and five are owner succession deals. Private equity is becoming more common in Japan, and so when we talk to owners about succession planning, they understand we are an option and potentially a better option than selling to a competitor given our value creation capabilities to drive future growth. These owners are concerned about how a business will grow after a private equity investor comes in, so having successful examples of past transactions is helpful. Recently, we have also seen cases of owners selling who are not at the traditional retirement ages, as well as some serial entrepreneurs selling their businesses to start new companies with the proceeds. We believe this trend will continue.

As the Japanese economy has improved, valuations in the capital markets, including private equity, have gradually increased. Lenders have also become more aggressive, leading to tighter leverage in certain situations, which is also contributing to higher pricing. We have focused on deals where we may be able to secure full or partial exclusivity, by being creative and addressing sellers' needs.

SCOTT HAHN, CEO OF HAHN & CO, ON KOREA:

There have been a lot of privately negotiated transactions among the big conglomerates as they sell businesses to one another – for example, Samsung Group with the Hanwha Group and the Lotte Group. We are starting to see more M&A activity, and I think activity will continue to be pretty brisk. Corporates are coming under pressure given

downturns in a number of industries globally. Then there are major business groups making strategic decisions to sell assets. We call it "select and focus" and it's becoming increasing the strategic choice in Korea these days.

How much of a role private equity plays in all this remains to be seen. Apart from our deal with Hanjin Shipping, private equity hasn't done

"We are seeing some succession planning deals and potential divestments by Korean sellers that want to select and focus"

– Scott Hahn

anything with a top-tier Korean conglomerate in terms of a full divestment. The big divestments have been by foreign strategic companies. But we are seeing some succession planning deals and potential divestments by Korean sellers that want to select and focus. Partners that offer strategic value will be sought after.

As for exits, there are certain sectors and types of business where private equity investors must decide that what they acquire is going to be of great strategic value to Korean corporates, which are the most likely source of M&A. You need to make that decision internally. It's not foreign strategic investors, foreign private equity or domestic private equity that is responsible for the bulk of M&A; it is domestic strategic players buying and selling from each other.

J.P. GAN, MANAGING PARTNER AT QIMING VENTURE PARTNERS, ON CHINA VENTURE:

The venture capital market may not be as hot as in the first half of 2015, but next year there will continue to be a lot of activity in terms of

NOVEMBER

\$1.6b – Oriza Holdings, Tencent Holdings and Alibaba Group commit \$1.6b to an investment platform launched by CMC Capital Partners

\$300m – KKR invests \$300m in Asia-focused investment platform Emerald Media

\$1.1b – Fortress closes its third Japan special situations fund at \$1.1b

\$381m – Hony Capital invests \$381m in Australia-based oil and gas supplier Santos

\$1.9b – Sankaty agrees to buy GE

Capital's commercial lending and leasing portfolios in Australia and New Zealand for \$1.9b

\$400m – Brian Koo sets up Formation Group and targets \$400m for an Asia-focused fund

\$298m – Lyfe Capital closes its debut China healthcare fund at \$298m

\$500m – CPPIB and APG set up \$500m Korea logistics venture with e-Shang

\$5b – India ride-hailing service Ola raises \$500m in funding at a valuation of \$5b

70% – KKR buys a 70% stake in India financial services firm Avendus Capital

\$157m – Ameba Capital closes its second China VC fund at \$157m

\$391m – Bain Capital makes a partial exit as Bellsystem24 raises \$391m in its Japan IPO

\$775m – An EMR Capital-led consortium agrees to buy an Indonesian gold mine for \$775m

\$7.5b – A private consortium pays \$7.5b for Australia's TransGrid

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fundraising and exits – either through trade sales or domestic listings.

There are a few reasons for this. The US Federal Reserve will probably keep easing monetary policy and the European Central Bank will do the same. The whole world is flooded with liquidity and a lot of it is looking for a home in growth markets.

China's GDP is only growing at 7% but this is still relatively high in global terms. India is similar but it's a smaller economy and so investors find it harder to deploy a lot of capital into the market. If you look at China, all the internet, healthcare and technology-related business are doing pretty well. The government is also encouraging venture capital to support entrepreneurship. Overall, I believe the VC market will remain healthy and vibrant.

There will be a lot of exit opportunities in the domestic markets too. I don't expect a lot of overseas IPOs next year, because the valuations you get in China are much higher. The regulator has re-opened the market for domestic IPOs earlier this month and the first batch of companies to go public are trading very well now. Meanwhile, people are hoping to list companies on the New Third Board or soon-to-open Strategic Emerging Industries Board. If you look at the M&A market, the BAT – Baidu, Alibaba Group and Tencent Holdings – are still acquisitive or making strategic investments. Other companies will follow suit.

However, I think there will be a little bit of slowdown in the angel investment side. In the first half of 2015, everyone was flocking into early-stage investments, even though they might not have deep pockets. The market will become



J.P. Gan



Doug Coulter

less crowded as people become more rational following the stock market crash this year.

In terms of sectors, I think online-to-offline (O2O) continues to be an interesting sector. We're also looking at new information technology, big data and smart devices. In addition, we are spending a lot of time on the online content creation side, such as literature, movies and animation. This segment is going to attract a lot of attention from younger generation.

There will continue to be a lot of consolidation in the internet space, given smart phone sales growth has been slowing and smart phone penetration in most Chinese cities is relatively high. For companies focusing on one business area, it will probably be difficult to get new users. They

have to consolidate in order to increase their revenue as well as profit margins.

DOUG COULTER, PARTNER AT LGT CAPITAL PARTNERS, ON THE LP PERSPECTIVE:

A small group of managers raises money without working very hard at it. This is usually because they have a credible track record, they aren't raising too much money, there is a strong alignment with LPs, and maybe some differentiation in the strategy. If you have some or all of those you are going to find it easy. Otherwise, it's just really difficult because a lot of LPs are not back to pre-global financial crisis days when they were throwing money at emerging markets. Looking back, these are probably going to be good times to invest in emerging markets because so many people are afraid of them and cutting allocations to them, but for GPs that are fundraising it's difficult.

Even though we have a strong preference for China, everything we do is bottom-up so we don't think about what is interesting right now from a macro perspective. Money raised in 2016 is going to be invested over a 3-4 year period and nobody has any visibility on what the macro situation is going to be in the likes of China, India and Japan over such a long period of time. With co-investment and secondaries it is a bit different because you can value particular assets, but with blind pools of capital all you can do is decide which markets you like from a top-down perspective and then continue to allocate capital consistently through the cycle.

There is specialization in the venture space for TMT [technology, media and telecom] and then healthcare and maybe cleantech a bit. But the jury is out. We haven't seen strong outperformance by sector-specific funds in Asia. A one-off fund may do well, but if you look across the board there is no evidence to suggest that sector-specific funds do better than generalist funds. For example, most LPs like healthcare from a top-down perspective but it's a difficult sector. Even if you have some exceedingly good doctors and scientists come together to form a fund, it doesn't necessarily mean they will do well. ▶

“Looking back, these are probably going to be good times to invest in emerging markets because so many people are afraid of them and cutting allocations to them”

– Doug Coulter

\$810m – Northstar closes its fourth Indonesia and Southeast Asia fund at \$810m

\$500m – Adamas Asset Management and Ping Trust launch a China SME fund with a target of \$500m

\$2.3b – China Communications Construction Company and the National Council for Social Security Fund establish a \$2.3b infrastructure fund

DECEMBER

13% – China Media Capital Holdings and CITIC Capital pay \$400m for a 13% stake in City Football Group

3.4x – Navis Capital Partners agrees to sell Golden Foods Siam to BRF for \$360m, netting a 3.4x return

3 – Legend Capital becomes the third PE firm in two months to apply to list on China's New Third Board

\$688m – Archer Capital agrees to sell HealthCare to Luye Medical Group for \$688m

\$7.5b – CIPPIB and Temasek join a \$7.5b pre-IPO round for the Postal Savings Bank of China

\$450m – Nexus Venture Partners closes its fourth India VC fund at \$450m

\$462m – Accel-backed Atlassian raises \$462m in its US IPO

REVIEW OF THE YEAR

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Snapshots from the 2015 AVCJ Forum

The global investment elite gathered in Hong Kong in early November once again for Asia's leading private equity and venture capital event. Here are a few of the highlights



Jenny Lee, Raymond Yang, Craig Dauchy, Andrew Chung and Eric Chan discuss VC issues



Niklas Zennström of Atomico



Hony Capital CEO John Zhao opens the PE Leaders' Summit



Katja Salovaara, John Lin, Peter Amour, Rodney Muse and Brian Hong



P.V. Wang of Adams Steet, David Wong of PAG, K.Y. Tang of Affinity, Robert Ohrenstein of KPMG, Roy Kwan of CVC, and H. Chin Chou of Morgan Stanley PE Asia



Howard Marks of Oaktree Capital Management



The Venture Capital Summit

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Economist Andy Xie speaks at the gala dinner



Senior industry executives discuss women in private equity



Full house for the Investment Summit



Guan Seng Khoo, Shirley Ma, Kelvin Lu and Dennis Kwan at the LP Summit



Investor relations panel at the PE Leaders' Summit



Allan Zeman of LKF Group



Winners at the 2015 AVCJ Awards



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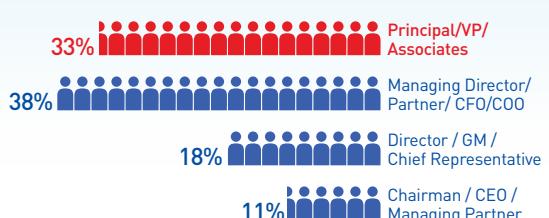
18 Countries Represented

8 Unique networking opportunities

215 Companies Represented

LP-GP RATIO
1 : 1

Attended by 100+ LP and 46+Speakers from China and overseas



Enquiry

Registration enquires: **Pauline Chen**
T: **+852 2158 9655**
E: **Pauline.Chen@avcj.com**

Sponsorship enquires: **Samuel Lau**
T: **+852 2158 9659**
E: **Samuel.Lau@avcj.com**

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Are LPs even LPs anymore?

A group of top-level LPs of varying sizes came together at this year's AVCJ Forum to discuss what they want from co-investment, how they prefer to participate, and ensuring alignment of interest with GPs

THE PARTICIPANTS: MOUNIR

Guen, CEO of placement agent MVision, who served as moderator; Sandra Bosela, co-head of the private markets group and global head of private equity at Optrust Private Markets Group (\$18 billion in assets, \$3 billion in private equity globally); Steve Byrom, head of private equity at Future Fund (\$120 billion, \$13 billion); Suyi Kim, managing director and head of Asian private equity at Canada Pension Plan Investment Board (\$197 billion, \$51 billion); and Ivan Vercoutere, managing partner and CIO at LGT Capital Partners (\$50 billion, \$25 billion). What follows is an abridged version of their discussion.

ON THE EVOLUTION OF PRIVATE EQUITY AND CO-INVESTMENT

VERCOUTERE: I think back 25 years ago and what the private equity industry looked like – \$10 billion in capital raised, mostly US buyouts, with a little bit of Europe. You had the GP and the

that has evolved so quickly. The lines between LPs and GPs are blurring more and more. They definitely live in the same world, they share a lot more information than they used to.



Mounir Guen of MVision

LPs moving up the food chain and not doing just primaries but secondaries, co-investment, directs. It is part of this evolution, GPs and LPs learning to work more closely together and have a more symbiotic relationship.

KIM: We are a very large investor in funds, but over time we have also built direct investment capabilities. Within directs we have three buckets: co-investment, co-sponsorship or co-underwriting, and strategic investments. The evolution is from co-investment to co-sponsorship to strategic investment. The underlying criteria are the check sizes we can invest. We have a large pool of capital that is growing very fast, but we don't have unlimited resources. For the smaller deals, we cannot afford to put in five or six-person teams for a couple of months. We only do these smaller co-investments with our GPs and we largely want to rely on the GPs to source and monitor investments. Strategic investments are more for us to

mitigate the re-investment risk. Building scale is important and one of the headaches is you have to realize every five years. You deploy \$5-6 billion on the funds side and some years you get back \$7-8 billion and so the overall portfolio ends up shrinking. We don't need liquidity because of our asset-liability profile, so we can be a longer-term investor as opposed to buying and selling, buying and selling. This strategic investment is not necessarily what our GPs would pursue.

ON THE IMPORTANCE OF GP-LP COMMUNICATION

GUEN: Imagine that I'm a GP; I've just closed my fund, I've got a big deal and I want you to co-invest, but all four of you turn me down.

“Today I can’t think of an industry that has evolved so quickly. The lines between LPs and GPs are blurring more and more. They definitely live in the same world, they share a lot more information than they used to”

– Ivan Vercoutere

I find it very frustrating, so why should I give you co-investment?

BYROM: It is coming to a point now where to get the fund investment it's going to be important. There is an underlying message in that: in a slow return environment, the economics on the fund don't work. That is what the LP community is saying to the GP community by demanding co-investment opportunities. Different investors have reasons peculiar to them as well. We are a commodity-based currency and we don't run annual allocations, so co-investment is an important tool for us to manage our capital flows.

BOSELA: Every LP today wants co-invest and GPs know there is a handful of LPs who say they want it but never execute; they will very quickly put them to one side. I think that as long as an LP comes back quickly and tells a GP if it's a no and why it's a no, the GP will appreciate that and move on. It's important for certain LPs to show they can do it and that is why they are going to get the calls over and over. When you are doing due diligence on a manager, track record and team obviously come first, but co-investment is pretty important to us – for 10-20% of our relationships it is okay for there to be no co-invest, with everyone else we want it. We are only going into managers where we think there is a need for our capital. So we will often ask, "Who is your investor base? Who are your co-investors? Who actually does co-invest? What size checks do they write?" If there are already 10 guys who



Ivan Vercoutere of LGT

LP and they lived in two different worlds. They got together every four years and the GP would raise the capital and tell the LP, "I'll come back in 4-5 years, tell you how I've done and hopefully you'll give me money again." Today I can't think of an industry

THE DEBATE

AVCJ-editorial@avcj.com

write the same check as us, we are probably not going to get what we want. The onus is on the LP and if you are a serious investor you have to make sure you partner with the right type of people to get that relationship. And there is a respect there. Once you do one co-investment, they know you can execute, and so if you turn down the next two or three, the GP will understand as long as you have an efficient process.

VERCOUTERE: The four “no’s” you have gotten might mean very different things. Have you done a co-investment with one of us before? How did that work out? Was it no in 48 hours or no after three weeks? Was it a no with an explanation that makes sense to you? It means different things.

GUEN: One of the things I always tell GPs is get to know your investors. If they tell you they are active in co-invest then get them to present to you how their program works, what their interests are, how their decision making process operates.

VERCOUTERE: Who is going to work on it? Is there a dedicated team? How quickly can they expect the initial feedback? Do they want to recreate due diligence? Do they want to meet management? There is a long checklist and everyone does co-investments differently.

BOSELA: When we go into GPs, we spend a lot of time with them trying to understand their sector focuses. Our team then tries to get smart on those sectors so we can respond when opportunities come up, or we can proactively hunt with the GPs, or source opportunities to show them our competitive advantage in the Canadian market. When everyone wants co-invest we must try to differentiate ourselves, ask how can we get up the curve quicker and be the partner of choice.

ON FEES IN CO-INVESTMENTS

GUEN: [Imagine that I’m a GP]; I’ve got the hottest deal you’ve ever seen. I know you it because you heard through the bankers that I’ve been looking at this deal and it’s pretty much proprietary. You



Steve Byrom of Future Fund

want \$250 million? You got it. It’s 1% [management fee] and 10% [carried interest].

KIM: We don’t pay fees and expenses for direct investment.

GUEN: Okay, I’m giving it to Steve...

BYROM: I don’t pay either.

KIM: We believe we have strong relationships with all our GPs, and in addition to that we have a significant amount of capital that normally pays 2/20. On the direct

they all said 0/0. The GP went outside the fund and found two people who would do the whole thing at a handsome promote.

BOSELA: But are those two people going to be in their next fund?

GUEN: Yes.

KIM: I understand there are economics, but there are a lot of other considerations as well. One of the important points being the certainty of capital. When you get into a deal situation it is very important that you have certainty from your partner and when things work out you will have the capital. We can provide that certainty and transparency; we can also provide a deal team that works alongside the GP and thinks about things in a similar way. I think we bring more than just the capital.

GUEN: What if I give you zero on the management fee, 1% on the monitoring fee, and I get a 10% carry if I make 3x net or more. Are you interested?

BOSELA: No.

VERCOUTERE: If it’s a \$500 million fund that has a slightly bigger

difficult in the mid-market – and it makes 3x-plus, am I willing to share that? Yes, because how many big deals do 3x-plus?

BOSELA: We will do deals alongside our GPs, but we don’t pay economics on them because we are in the fund. If someone were not in our fund and comes to us – maybe they don’t have a fund or their LP base can’t do what they need us to do – then we would be willing to pay some economics.

ON GPs RAISING VEHICLES ALONGSIDE THEIR MAIN FUNDS

GUEN: [Imagine that I’m a GP]; I’m going to raise a \$2 billion fund, I’ll probably have \$500 million in co-invest, and I’m going to do a top-up, because that way I don’t have to go to you guys every time I need some money for a big deal. I’ll put in a sidecar fund for \$500 million. Are you happy?

BYROM: It’s a really complicated question, because of the incentive arrangements that come out of that. If you have a fee mechanism that switches on as you use that vehicle, you are incentivized to use that vehicle. How you manage



The panel (left to right): Mounir Guen, Sandra Bosela, Steve Byrom, Ivan Vercoutere and Suyi Kim

side we have managed to build a significant portfolio and we’ve not paid any fees or carry.

GUEN: I know an example of a GP that went to its existing investors, as per the understanding, and

deal and it has those risk-return characteristics, then I would consider it. These GPs work in a different world; the performance fee is what makes a difference at the end of the day. If they find a proprietary deal – which is very

that is an issue. For me, with a commodity-based currency with no annual allocations, we try to use co-investment to moderate our capital demands and unfunded commitments. Having a sidecar vehicle doesn’t achieve

that. It still leaves me with a big unfunded commitment.

KIM: I have seen a number of those cases and there are cases in which we have participated as well. It brings a lot of complexity from a GP perspective. We have seen cases where the top-up fund didn't work out too well because the allocation has been an issue, the different investor base and the complexity that brings. At the end of the day, in the cases I have seen, there aren't any top-ups after the first top-up.

VERCOUTERE: You don't see too many of those. There was a period of time when you saw them but I think there are fewer today because of the pressure to offer co-invest.

GUEN: What if I did a SPAC [special purpose acquisition company], a one-off UK-listed vehicle where you don't really have to define the asset, and got \$600 million to put into a direct deal?

BOSELA: Then I'm not going to be in your next fund. We are not aligned. Why are not putting what you have in the SPAC into the fund? Now you have a competing vehicle with the fund and you have created misalignment. Whenever there is strategy drift, whenever there is any kind of competing fund, those are not happy conversations. If it's something that was discussed in advance and we knew there was a risk of that happening, then that's something we took on. But if there is a surprise during the fund we are not going to be happy.

VERCOUTERE: Look that the dynamics of the private equity market today. A lot of investors have been active for a long time and they have many managers. The motto is: I need to reduce the number of managers and put more capital to work. You as a GP think you are going to

be in the inbox or the outbox. If an important LP is asking for co-invest you are going to ask twice about these things that might upset the LP. You want to strengthen the partnership between you and your most important LPs.

ON CREATING LONGER-DURATION STRUCTURES FOR CERTAIN ASSETS

GUEN: In certain portfolios there are exceptional companies that are paying back their equity every couple of years. Why



Suyi Kim of CPPIB

should the GP sell their best asset to fundraise? And why should they be selling it at 3.5x when it could be generating cash for you for a long time? [Imagine that I'm a GP]; would you come with me and buy it out of the fund, at third-party price, where the fund investors are happy because that's what they wanted? We put it in a special purpose vehicle that I will manage and we will hold that investment for 10 years, assuming it pays back the equity every two years. At some point a strategic might come along with an incredible price or perhaps we list the business six or seven years from now. But this is an interesting direct...

KIM: We do have a business that has grown significantly – direct secondary or GP restructuring. We have done a number of large transactions from 2009-2010 and that was exactly the idea: provide liquidity to the LPs that need it and provide a solution for the GP

as well. For those investments it is generally important to have control, but Asia to date at least, a big part of private equity has been minority investments and controlling the exit has not been that obvious.

BYROM: If I was on the advisory board of the fund I'm not sure I would sign off on it. But as a new investor coming in, it's an interesting idea. You don't get these secondary trades in Asia because of the power of primary capital going into the growing business. Are you better off putting that capital into the company as a primary investment to accelerate the growth rather than do a secondary trade?

VERCOUTERE: We've had a number of funds where they had one of those assets and they kept it until the bitter end of the fund and provided those types of returns. It can work, but the other part is there is a need for a GP to get liquidity and

“Once you do one co-investment, they know you can execute, and so if you turn down the next two or three, the GP will understand as long as you have an efficient process”

– Sandra Bosela

think about an exit. It is a good discipline, a good exercise. It is also how we as LPs measure the GPs. We proposed this exact structure to one of our GPs and it went to the advisory board.

They could sell the business to a third party or we could create a structure for those that wanted to roll over and the others get liquidity. All the other LPs took the cash and the asset was sold to another GP and it is going to do extremely well. There is a rationale for it, but the question is how to structure it so as not to create conflict for certain GPs.

GUEN: Sandra, it's a phenomenal deal, you've known me [the GP] for a long time. The fund is happy because all the LPs have made 3-4x, but we can get 10x, still run the company and you get your equity back every two years. Why not do this?

BOSELA: But do I need you there for it? I could be there on my own. We try not to be direct investors, but it's interesting because that is part of the pitch when we do co-investments with GPs. They come with the industry expertise but often a company says it doesn't want to go through the sale process in five years. Being at the table as a long-term investor, I can say our whole purpose of being is to pay pensions years down the road, so I'm happy to not keep churning my capital because every time I get it back I have to go sit and wait and find other companies that can earn that type of return. It's an interesting conversation with GPs because we can buy them out if they need to be bought out. We are happy to stay in if we are earning 20% year in, year out – I don't want out in three years just because the market timing is good. My group sits with the infrastructure group and when we make investments from the infrastructure portfolio we are modeling them in perpetuity, so we have a very long-term focus. Those are the types of investments that we love. We don't have to show exits for fundraising so if we can come in and find a way to keep long-term high-growth assets on our books we will do that. ▀

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Global Investment Portfolio Analysis						
Investment Type		Geographic Breakdown				
Investment Type	Geographic Region	North America	Europe	Asia-Pacific	Latin America	Other
Equity Investments	North America	\$150M	\$120M	\$180M	\$50M	\$20M
Equity Investments	Europe	\$100M	\$80M	\$140M	\$40M	\$10M
Equity Investments	Asia-Pacific	\$120M	\$90M	\$160M	\$40M	\$10M
Equity Investments	Latin America	\$50M	\$40M	\$60M	\$20M	\$5M
Equity Investments	Other	\$20M	\$15M	\$30M	\$10M	\$5M
Debt Investments	North America	\$80M	\$60M	\$90M	\$30M	\$10M
Debt Investments	Europe	\$60M	\$50M	\$70M	\$20M	\$8M
Debt Investments	Asia-Pacific	\$70M	\$60M	\$80M	\$30M	\$10M
Debt Investments	Latin America	\$30M	\$20M	\$40M	\$15M	\$8M
Debt Investments	Other	\$10M	\$8M	\$12M	\$5M	\$5M
Real Estate Investments	North America	\$50M	\$40M	\$60M	\$20M	\$10M
Real Estate Investments	Europe	\$40M	\$30M	\$50M	\$15M	\$8M
Real Estate Investments	Asia-Pacific	\$60M	\$50M	\$70M	\$30M	\$10M
Real Estate Investments	Latin America	\$20M	\$15M	\$30M	\$10M	\$5M
Real Estate Investments	Other	\$10M	\$8M	\$12M	\$5M	\$5M
Private Equity Investments	North America	\$100M	\$80M	\$120M	\$50M	\$20M
Private Equity Investments	Europe	\$80M	\$60M	\$100M	\$40M	\$15M
Private Equity Investments	Asia-Pacific	\$120M	\$100M	\$140M	\$60M	\$25M
Private Equity Investments	Latin America	\$50M	\$40M	\$60M	\$20M	\$10M
Private Equity Investments	Other	\$20M	\$15M	\$30M	\$10M	\$5M
Venture Capital Investments	North America	\$30M	\$20M	\$40M	\$15M	\$8M
Venture Capital Investments	Europe	\$20M	\$15M	\$30M	\$10M	\$7M
Venture Capital Investments	Asia-Pacific	\$40M	\$30M	\$50M	\$20M	\$12M
Venture Capital Investments	Latin America	\$15M	\$10M	\$20M	\$8M	\$5M
Venture Capital Investments	Other	\$8M	\$7M	\$12M	\$5M	\$5M
Other Investments	North America	\$20M	\$15M	\$30M	\$10M	\$5M
Other Investments	Europe	\$15M	\$10M	\$20M	\$8M	\$5M
Other Investments	Asia-Pacific	\$30M	\$20M	\$40M	\$15M	\$10M
Other Investments	Latin America	\$10M	\$8M	\$15M	\$5M	\$5M
Other Investments	Other	\$5M	\$4M	\$8M	\$3M	\$5M
Total Portfolio Value	North America	\$450M	\$370M	\$550M	\$130M	\$55M
Total Portfolio Value	Europe	\$380M	\$310M	\$480M	\$110M	\$50M
Total Portfolio Value	Asia-Pacific	\$550M	\$480M	\$650M	\$180M	\$75M
Total Portfolio Value	Latin America	\$130M	\$100M	\$180M	\$70M	\$40M
Total Portfolio Value	Other	\$55M	\$45M	\$85M	\$35M	\$40M
Total Portfolio Value	Global	\$1,380M	\$1,180M	\$1,880M	\$490M	\$180M

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Plugging the innovation gap

LAST AUTUMN, A GOVERNMENT-BACKED

report warned that Australia was in danger of being left behind in financial technology race.

The global fintech sector will more than double in size to be worth \$6-8 billion by 2018, the report noted, and other financial centers are already encouraging Australian start-ups to relocate. The country's financial sector contributes 9% of GDP, 18% of corporate tax receipts and 420,000 jobs, most of them in Sydney. The city must act now to stay competitive, the report concluded.

No time has been wasted in making up lost ground. One of the recommendations – the creation of a non-profit fintech hub to encourage collaboration between start-ups, venture capital and established financial services players – became a reality in March with the launch of Stone & Chalk in central Sydney. One of the first tenants in the 1,230 square-meter co-working space was H2 Ventures, an early-stage fintech investor that spun out from listed entity AWI Ventures nine months ago.

Last week, H2 was responsible for another

breakthrough as it teamed up with First State Super to support fintech start-ups. The new partnership will receive a portion of the A\$250 million (\$182 million) the superannuation fund wants to deploy in technology innovation. It has already allocated some of this to Blackbird Ventures' latest fund.

"The challenge the super funds have is they are too large to be able to invest in very small opportunities," says Ben Heap, founding partner at H2. "The advantage of working with someone like ourselves is that we can help super funds sensibly invest in a portfolio to play this sector."

H2 already runs an accelerator program that brings start-ups to Stone & Chalk for six-month stretches. It has supported 11 companies so far and plans to get 100 more off the ground over the next three years. Of those 11, online wealth management platform Stockspot and equity crowdfunding platform Equitise have subsequently raised



Sydney: Fintech hub

follow-on rounds from Rocket Internet and Tank Stream Ventures, respectively.

First State Super is predominantly interested in later-stage opportunities where it can put more capital to work. With H2 already covering the very early-stage space, Heap wants to try and fill the gap in between. He is in talks with a number of different investors about a fund

that would focus on Series A rounds of A\$5 million or above, essentially providing a domestic option for start-ups that would otherwise have to look for capital offshore.

But the significance of First State Super's involvement in an area that many of its peers have avoided in recent years should not be overlooked. "Listening to them talk about it, they want to get into the opportunity and then maybe invest further money in the future," Heap adds. "The important thing is they have made a decision to become an investor in the space and that is very positive for the economy." ▀

The online-offline element

FOR ACOMMERCE, A SOUTHEAST

Asia-focused e-commerce solutions provider, taking strategic investment from Switzerland-based DKSH wasn't initially part of the plan. Having secured \$5 million in financing in May, the company intended to complete its Series B round in the second half of this year. But then DKSH expressed an interest in investing, and plans were put on hold.

"We had already been working with DKSH, helping some of its brands expand in the region, especially in Thailand," says Paul Srivorakul, co-founder and CEO of aCommerce.

"We have even used some of their old warehouses in our operations. When they heard that we were in the process of raising money, they said they wanted to acquire a small stake. That led to discussions about the potential cooperation, and the opportunities are massive. It's very strategic."

Last week, the Switzerland-listed company

bought a 20% stake in aCommerce for an undisclosed sum.

DKSH works with companies that want to find outsourcing partners in new markets, delivering integrated solutions online and offline in Asia. Meanwhile, aCommerce helps brands take their sales online. It has supported the likes of L'Oréal Group, Nestle and HP with online marketing campaigns, fulfilment, last-mile delivery, localized customer services and payment solutions. These B2C value-added services are seen as an important to DKSH's customers, and vice versa.



Logistics: Part of getting online

"We have more than 140 brands that some want to expand into other markets," says Srivorakul. "A lot of companies that come to us will firstly try to sell their products through our marketplace. Once their online sales strategy is proven, they build their own websites, getting more serious in e-commerce. Some will also get more serious on offline, and they want to build their retail stores in different markets. DKSH,

which has tens of thousands of retail outlets on the B2B side, is therefore complementary to us."

DKSH will allow aCommerce to make use of its 165 distribution centers across Southeast Asia, which serve more than 100 global blue-chip clients, as well as its warehouse space, fulfilment centers and other physical assets. In other words, the deal will expand aCommerce's coverage in countries in the region where it currently doesn't have operations.

Founded in June 2013, aCommerce has four offices in Thailand, Singapore, Indonesia and the Philippines, and there are plans to enter Malaysia and Vietnam. The company received \$10.7 million in Series A funding in June 2014 from investors including Ardent Capital, Indonesian conglomerate Sinarmas and Inspire Ventures. It is said to be one of the largest Series A rounds ever seen in Southeast Asia.

"We do plan to raise the Series B later next year," Srivorakul adds. "Obviously we now want to leverage this relationship with DKSH, which could bring more value to the business and help us expand into other markets." ▀

Manufacturing 2.0

When Shaw Kwei & Partners bought Singapore-based electronic manufacturing services player Beyonics, it was in debt and making no money. A strategic repositioning has returned the business to profitability

SHAW KWEI & PARTNERS' CONNECTION

to Beyonics Technology dates back to the 1990s when it invested in contract manufacturer Flextronics International. Former employees of Flextronics populated the management team, so there was an immediate familiarity.

Beyonics was founded in 1981 as Uraco Precision Engineering and listed on the Singapore Exchange 14 years later. With the introduction of new management in 2000, the electronic manufacturing services (EMS) provider took a different guise – the manufacturing agreement with Seagate Technology was signed – and ultimately a different name.

But life as a listed company proved challenging. When the market was collapsed during global financial crisis, a large chunk of second- to third-tier Asian stocks – companies with market capitalizations below \$500 million – were neglected by investors. Shares in Beyonics were trading at a seven or eight year low with an enterprise valuation of about \$80 million.

And despite being the 16th largest EMS company in the world, with approximately S\$1.2 billion (\$945 million) in annual turnover, profits were drying up. In the 2011 financial year, Beyonics swung to an S\$17.5 million loss on sales of S\$1.33 billion, compared to net income of S\$6.9 million a year earlier. Furthermore, the companies was struggling under the weight of \$18 million in debt.

For Shaw Kwei, it was an opportunity to make an acquisition at an attractive valuation. In 2012, the Asia-focused GP paid \$115 million for the business, which represented a 35% premium to the trading valuation at the time. Beyonics was then de-listed from the Singapore Exchange.

"The business was drifting down and was very sleepy. In this world, if you aren't moving forward, you're going backwards. It's really not possible to stay still, so we saw the opportunity to change things. It has been fun and we're seeing the result now," says Kyle Shaw, founder and managing director of Shaw Kwei, who is also a chairman of Beyonics.

One step back

When the private equity firm completed the acquisition, more than 70% of Beyonics' revenue came from manufacturing hard-disk drivers, with much smaller operations in supplying contracted

consumer telephones, medical devices and auto parts to original equipment manufacturers (OEMs).

Drawing on its over 20 years of experience in the EMS industry, Shaw Kwei decided that the company had a little chance of becoming a strong competitor. EMS is by necessity a high-volume business because margins are so low – and the landscape was markedly different from before the global financial crisis when demand was much stronger.

"Their strategy was in the wrong place at the wrong time," Shaw explains. "When the global market contracted in 2008-2009, the biggest challenge for all manufacturers in Asia was that demand for products dropped. There was way too much capacity. If you were competing in an undifferentiated space and making something simple, then you would face tremendous competition."

As such, Shaw Kwei took one step back to evaluate the whole business strategy in order to take two steps forward in the future. It brought in

Compared to consumer electronic products, the PE firm sees the automotive parts in terms of a much longer lifespan. This has implications for product quality and reliability. There are similar considerations in the medical equipment space. For example, a tool used in spine surgery, for which Beyonics manufacturers the metal tip and internal plastics and PCB, must perform to a consistently high level. During an operation, the surgeon relies on the tool to generate a lot of information about the patient.

To avoid distraction, Shaw Kwei wanted to cut off the existing low-value EMS manufacturing division, which contributed the remaining 70% of revenue. However, most of this revenue was closely tied to global hard-disk giant Seagate, a customer of more than 30 years' standing.

US-listed Seagate outsourced its hard-disk manufacturing, specifically making aluminum base plates and machining, to Beyonics in 2001. It soon expanded to provide PCB assembly (PCBA) services, packaging it as a box with all the parts inside. The contractor sold each hard-disk driver

"If you were competing in an undifferentiated space and making something simple, then you would face tremendous competition"

– Kyle Shaw

Bain & Company to conduct thorough research on Beyonics' existing customer base, underlying market size, and product range. The conclusion was that business lines accounting for 30% of the revenue base actually had the potential to grow. These areas – such as printed circuit boards (PCB), plastic injection parts, aluminum die-casting and machining, and metal stamped components – required high skillsets. Management had neglected them.

Instead of positioning Beyonics as an EMS company offering a variety of manufacturing services, including design, assembly, and testing, Shaw Kwei decided to re-focus as a precision manufacturer, pursuing lower volumes but higher margins. Beyonics already supplied precision products to several global leading players in the automotive, industrial and medical spaces, and the GP wanted to dive deeper into this group of customers.

for about \$1.54, generating up to \$5 million every month.

Given the plans to restructure the business, privatization was always the best option. There would have been considerable panic among public market investors had Beyonics announced its intention to sell a division responsible for 70% of revenue. Moreover, Shaw Kwei understood that selling hard-disk drivers was a declining market, a fact underlined by the zero profit contribution, which also consumed a lot of working capital. This strengthened the case for terminating the arrangement to supply components to Seagate.

"We couldn't just leave Seagate overnight without a supplier. We wanted to do it in an orderly fashion, because we didn't want to let any customers down. So we said: 'Either you pay us more, or if you don't want to do that, then we need to exit the relationship.' We basically had

a one-year exit period, which was almost like a divorce," says Shaw.

After Seagate agreed to discontinue the partnership, the PE firm wanted to bring in a new CEO to direct the transformation. As a matter of course, the incumbent, Chan-Peng Goh, handed over all his business records on departure. It turned out that Goh had abused his position and broken the law, having received bribes for sending components of Seagate's hard-disk drives to a Korean competitor. Attempts were made to revolve the case quietly but Goh refused, prompting a legal action.

"I had never expected that. Having pulled together all the previous CEO's files and information, we found he had signed contracts for a bribe, which seemed a bit odd to me. I didn't know how people reach agreement on a bribe, but I assumed that they didn't really sign a contract," says Shaw. "By that point we had already bought the company. When you buy a company you think you can control the future, and that might be doable. But you also inherit the past."

The situation led Shaw Kwei to two conclusions. First, that Goh likely wasn't dedicated to developing the healthy part of the business, preferring to focus on taking advantage of the customer networks. Second, that Beyonics suffered from poor corporate governance, with the board failing to have strict oversight of the CEO's behavior. Both issues could be addressed.

The PE firm introduced an enterprise resource planning (ERP) system – in order to integrate all facets of business operations, including planning, development, sales and marketing – and brought in accounting firm Deloitte to improve the accuracy of financial reporting and operational efficiency.

Integrated solutions

Shaw Kwei's other priority was consolidating and upgrading the existing manufacturing facilities. Previously, Beyonics had 12 different manufacturing locations spread across Indonesia, Singapore, Malaysia, Thailand and China. Each facility was small scale and it usually took 45-50 minutes to travel between locations within the same city.

Efforts are being made to shift to a network of concentrated facilities that offer multiple services and product solutions. For example, it recently moved into a new 320,000 square-feet integrated plant in Johor, Malaysia, which effectively does the job of five facilities in Malaysia and one in Indonesia. There are now only five locations in total – two in Malaysia, one in China and two in Singapore.

This will drop to four in 2017 with the merger of the two Singapore plants. Each large facility

looks like a campus comprising several buildings that provide one-stop solutions ranging from plastic equipment making to aluminum die-casting. It means that customers – mainly automobile, medical and industrial industry players – have more choice. Integrated facilities also make it easier to expand and introduce technology upgrades.

"If you want to deal with automotive and medical companies, you need something that actually looks clean and sophisticated. You need something that says quality and precision. The decision was very simple. We needed to move into better, more presentable and more efficient facilities, in locations where we can hire people not for low-cost but for their brain power," says Shaw.

"We need our staff to focus on dealing with this long-term process, including customer identification, price quotation, and providing manufacturing qualifications"

– Steve Manning

The GP opened the China facility in Changshu, a country under the jurisdiction of Suzhou, which has a strong reputation for manufacturing auto parts. The facilities in Singapore have also been well received and are perceived as being high quality, a key factor for automotive and healthcare industry clients.

Having written off substantial revenues by discontinuing the Seagate relationship, Beyonics has built up a portfolio of around 50 customers, including some Fortune 500 companies, across a diverse range of industries.

The combined size of the company's three core markets is estimated to be hundreds of billions of dollars globally. The automotive supplies market alone was worth EUR620 billion (\$605 billion) in 2015, up from EUR515 billion in 2010, according to Statista, an independent data provider. Meanwhile, Transparency Market Research put the value of the global medical device outsourcing market at \$21.1 billion in 2012 and expects it to reach \$40.8 billion in 2018.

"One challenge for the business is that it is a very slow sales process, which takes about one or two years," says Steve Manning, chief marketing

officer at Beyonics. "We need our staff to focus on dealing with this long-term process, including customer identification, price quotation and providing manufacturing qualifications. For the medical and automotive players in particular, it takes a lot of time for them to approve the quality of the factory and the production of the parts and equipment."

That said, once partnerships are forged, they remain in place for up to 10 years. The company now generates about \$300 million in annual revenue. Automotive parts and industrial component manufacturing each account for 40% of the total, with medical devices on 20%. Most of Beyonics' products are sold to Asian buyers, although they will end up in devices that might be exported overseas or used domestically.

Growth phrase

The company quickly paid down its debt and now carries no financial burden. Before Shaw Kwei bought Beyonics, operating margins were 1%, which explains why the business was operating at a net loss. Three years on, margins are up to 10% and with an increasing focus on higher-margin products they could reach as high as 15%.

"We have executed the transformation strategy as we mapped it out three years ago. That part is almost finished and we have some small follow-ups. The next challenge I'm looking at is growing the business, taking what we have done and focusing on getting more out of it in terms of expanding into new customers and products. That hasn't been the primary focus for the last three years," Shaw says.

Four months ago, Warren Buffet's Berkshire Hathaway agreed to buy US-based Precision Castparts, an equipment manufacturer for the aerospace and energy industries, in a deal that valued the business at \$37 billion, including debt. Shaw Kwei envisages Beyonics becoming an Asian version of Precision Castparts by expanding its product lines, with several bolt-on acquisitions under consideration that would strengthen the company's presence in Southeast Asia and China.

One way or another, a trade sale appears to be the logical exit route, which would compete Beyonics' transformation from a relic of another era to an attractive niche player at the cutting edge of manufacturing.

"For operational value, you really need to look at the business as a complete system, including the factories, equipment and the people in place. There are also ERP and financial systems. When you start making changes to one thing, inevitably you have to make changes to other things as well," says Shaw. "It is just not possible to do a little bit, or to do half of it. You either all-in, or don't do it." ▀

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