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The 16th AVCJ Awards

AS THE INDUSTRY'S PREMIER INFORMATION SOURCE, THE ASIAN

Venture Capital Journal tasks itself with highlighting the firms, professionals, investments, exits and fundraises that are a cut above the rest. We do this on a daily and weekly basis online and in print, and then on an annual basis through the AVCJ Private Equity & Venture Capital Awards.

The awards are a showcase for first-class innovation, ingenuity and performance. They are also unique in how they are distributed – relying primarily on nominations and votes cast by Asia's private equity and venture capital community, but with contributions from a select panel of industry judges as well as the AVCJ Editorial Board.

The 16th iteration of the awards featured no new categories. The nomination and voting process was also unchanged. Nominations opened in August and names were put forward on behalf of third parties as well as directly. Individual firms were restricted to one submission per category. All submissions had to relate to fundraising, investment and exit activity over the 12-month period ended September 23, 2016.

The entries were evaluated by the AVCJ Editorial Board and a long list was created. The judges assessed the long list and had the opportunity – if they wished – to review original submission papers and propose alternative candidates. Their collective recommendations formed the basis of the final shortlists drawn up for each category.

Voting began on October 12 and closed on October 28. The entire private equity and venture capital community was able to participate in the vote, although they were asked to register – providing name, firm and contact details – so as to avoid vote packing. As in previous years, no more than 10 votes were accepted from the employees of a single firm.

The results were collated, assessed and final recommendations put forward. The PE and VC community has a 50% say in the outcome, with the judges and the AVCJ Editorial Board each accounting for 25%.

This assessment process did not apply in two categories. The Operational Value Add Award recognizes private equity-driven value creation in an Asia-based business. It is presented at the discretion of the AVCJ Editorial Board with substantial input from a separate judging panel comprising industry professionals who work on the operations side. Given the nature of the category, we were only able to consider submissions accompanied by supporting documentation.

The AVCJ Special Achievement Award is also presented at the discretion of the AVCJ Editorial Board, although suggestions from the PE and VC community were considered. It recognizes an individual who has

distinguished himself or herself in facilitating the growth of the private equity and venture capital industry in Asia.

As in previous years, we are indebted to our expert judges, who made the time to participate in the process. For 2016, they included representatives from:

- Aberdeen Asset Management
- Adams Street Partners
- Allianz Capital Partners
- Alpinvest Partners
- Asia Alternatives
- Hamilton Lane
- HarbourVest Partners
- HQ Capital
- LGT Capital Partners
- Morgan Stanley Alternative Investment Partners
- Pantheon
- Portfolio Advisors
- StepStone

The judging panel for the Operational Value Add Award included:

- Alvarez & Marsal
- Cinven
- KPMG
- PwC

The winners were announced at an invitation-only gala dinner in Hong Kong on November 14, preceding the AVCJ Forum. Many congratulations to those who took home prizes, and many thanks to everyone who participated.

We will persevere in our efforts to make the AVCJ Awards relevant, appealing and reflective of the work being done throughout the asset class in Asia. With this in mind, any feedback is much appreciated.

Tim Burroughs
Managing Editor
Asian Venture Capital Journal

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Roll of Honor

Fundraising of the Year – Venture Capital: GGV Capital VI, GGV Discovery I & GGV Capital VI Entrepreneurs Fund (GGV Capital)

Fundraising of the Year – Mid Cap: Quadrant Private Equity No.5 (Quadrant Private Equity)

Fundraising of the Year – Large Cap: PAG Asia II (PAG Asia Capital)

Deal of the Year – Early Stage Technology: Zai Lab (Advantech Capital /OrbiMed/Qiming Venture Partners/Sequoia Capital/TF Capital)

Deal of the Year – Late Stage Technology: Go-Jek (KKR/Warburg Pincus/Capital Group International/Farallon Capital)

Deal of the Year – Mid Cap: Wendy's Japan (The Longreach Group)

Deal of the Year – Large Cap: Golden Apple Education Group (PAG Asia Capital)

Exit of the Year – IPO: Focus Media (FountainVest Partners/The Carlyle Group/CITIC Capital/Primavera Capital/Fosun Group/China Everbright)

Exit of the Year – Mid Cap: Golden Foods Siam (Navis Capital Partners)

Exit of the Year – Large Cap: Loen Entertainment (Affinity Equity Partners)

Venture Capital Professional of the Year: Shailendra Singh (Sequoia Capital India)

Private Equity Professional of the Year: Frank Tang (FountainVest Partners)

Operational Value Add: China Hydroelectric (NewQuest Capital Partners)

Firm of the Year: Quadrant Private Equity

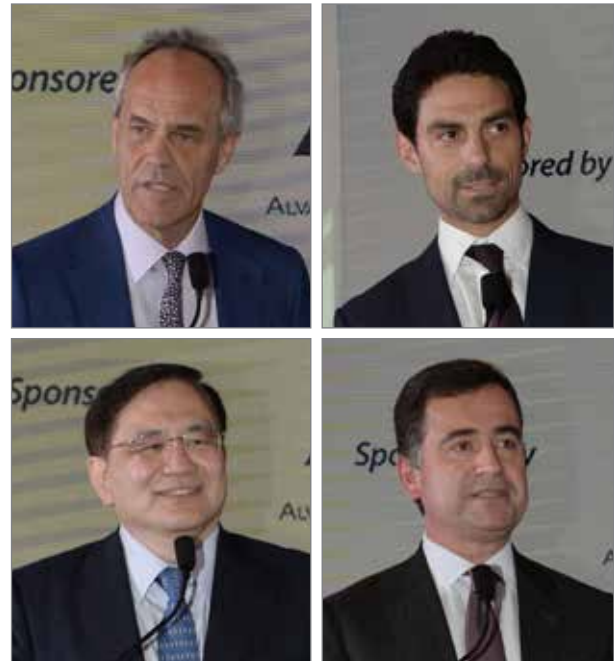
AVCJ Special Achievement: Kok-Yew Tang (Affinity Equity Partners)



“We are excited to put something together that crosses two very different cultural worlds – a carve-out from a very traditional Japanese company, Suntory, and partnering with the Wendy's Corporation from Columbus, Ohio to create Wendy's First Kitchen as a new concept. It's a great growth business. To people who think Japan can't deliver growth deals, we'd like to really prove them wrong”

– Mark Chiba, The Longreach Group





“I would like to thank the many chief executives and management teams. We’ve done 60 deals over the 20 years and some of those guys are exceptional people. Management teams make the profits, and we obviously give them guidance and capital, but they do a lot of hard work on our behalf”

– Chris Hadley, *Quadrant Private Equity*

“This was a particularly difficult transaction for us, because after our initial investment we lost 90% of our value within the first year-and-a-half. We had to claw back from that so a big thanks to the team for being able to turn around something that ended up as a great exit for our limited partners”

– Darren Massara, *NewQuest Capital Partners*



“Eleven years ago I was in the same room and I won an award for PE Professional of the Year. Maarten Ruijs from CVC made a very acute observation: he said the key to winning awards from AVCJ is to make sure you are sitting next to Wong Ai Ai from Baker & McKenzie. I took that to heart and every time I have sat next to her I have won an award. This year... I pleaded with her, I begged her to invite me to sit next to her. And, guess what? I won another award”

– K.Y. Tang, *Affinity Equity Partners*

Swift of foot, sure of strategy

FIRM OF THE YEAR & FUNDRAISING OF THE YEAR – MID CAP Australia-based Quadrant Private Equity has made a habit of six-week fundraises. The capital continues to target middle-market consolidation plays

LESS THAN FOUR MONTHS AFTER

closing its eighth fund at A\$980 million (\$754 million), Quadrant Private Equity has made 10 investments and committed approximately 40% of the corpus. Speed has become a characteristic readily applied to the Australia and New Zealand-focused GP – the most recent fund, like the one before it, took six weeks to close, while the gap between the two fundraises is only about two-and-a-half years – but the strategy has been

emphasis on partnership, with the previous owners remaining involved in the business. The first deal was announced days after the fund closed in August, with an agreement to acquire Ardent Leisure's Goodlife Health Clubs business for A\$260 million. With 76 locations and 200,000 members, Goodlife is the second-largest player in Australia's fitness club industry – which generates A\$1.3 billion in revenue a year – and one of only three with a double-digit market share. The

Funds, will retain a meaningful minority interest in the business).

The tourism platform was subsequently bolstered with the purchase of Rottneest Express, a Perth-based ferry and tour service, and Cruise Whitsundays, a North Queensland operator known for its cruises to the Whitsunday Islands and trips to the Great Barrier Reef. The investment thesis is based on growing demand for higher-end, experience-based travel; customers of GSR make stops along the way for gold mines, ghost towns, and camel-riding, while Rottneest offers snorkeling, skydiving and whale watching.

"The plan is to have a single platform and do cross-selling," says Marcus Darville, a managing partner at Quadrant. "If we span a lot of the country with iconic experiences then we can pull together itineraries for people. You have 10 days in Australia and we can take you to these amazing places – some of which are owned by us."

Traditionally, these consolidation strategies bring a standardization and economies of scale to industries where this is lacking. Centralized procurement that brings down costs, the ability to execute capital expenditure programs, wider-reaching marketing and product development efforts, and relieving management strain on service-oriented leadership teams by bringing them into a big tent are all seen as advantages.

Where the fitness and tourism platforms – and a restaurant business created before the launch of Fund VIII but still being added to – arguably differ from previous roll-up efforts is that they focus on consumer rather than business services. Darville believes this indirectly reflects the rebalancing of Australia's economy in response to the commodities downturn. Quadrant's investments are driven by a consensus view on a particular sector set of assets but macroeconomic factors play a role. For example, the decline in the Australian dollar has encouraged inbound tourism.



Hogan Lovells' David Gibbons (left) presents the award to Quadrant Private Equity's Chris Hadley

consistent across multiple vintages.

"Our approach has not significantly changed for the last five funds, in that we are looking for companies with strong brands and market positions with superior growth opportunities and good management teams. Given our mid-market focus inevitably a large number of opportunities are private companies, many of them family businesses with succession issues," says Chris Hadley, Quadrant's executive chairman.

Platform plays

It is also worth noting that six of those 10 investments fall under two newly-created platforms. They will occupy two slots in the typical seven-deal Quadrant fund, once again showing an appetite for bolt-on acquisitions and industry consolidation common to Australia's middle market. In both cases, there is an

following month, Quadrant agreed to buy the market leader; Fitness First has 65 outlets and 240,000 members.

With the addition of low-cost gym operator Jetts Fitness as well, the private equity firm can claim to have created a truly national player. The fitness and lifestyle group – in which Oaktree Capital, the previous owner of Fitness First, will hold a minority stake – will serve 650,000 members across 224 directly-owned and 188 franchised outlets, generating annual revenue in excess of A\$400 million.

Quadrant is pursuing much the same agenda in the tourism space. Also in September, an agreement was struck to buy Great Southern Rail (GSR), operator of three luxury transcontinental passenger services: The Ghan between Adelaide and Darwin; the Indian Pacific between Sydney and Perth; and the Overland between Melbourne and Adelaide (Once again, the vendor, Allegro

"The IPO market will remain a viable exit for companies of certain scale with good growth prospects"

– Chris Hadley

Overdependence on consumer demand, and discretionary spending in particular, poses its own risks as evidenced by a number of failed private equity investments (none of them by Quadrant) in Australian retail. But Hadley plays down this concern, noting that the timing of investments made so far is a function of opportunity and the portfolio as a whole should end up reasonably balanced. He sees no real change in industry focus across the 63 portfolio companies the GP has backed across all its funds.

"The fund overall is likely to be pretty defensive in its sector focus," echoes Darville. "It is true that consumer is potentially more volatile than healthcare but we don't see ourselves targeting highly discretionary areas. Even on the restaurant side, the bulk of that platform is casual dining and there is a secular trend towards this globally. There is also a lot of organic growth in all of these businesses, gyms, tourism and restaurants, and that gives you a cushion."

The open question is how big these platforms could feasibly become and what impact this has on exit options. The tourism business has gone from zero to A\$200 million in enterprise value within three months and is already larger than the leading listed company in the space. At the same time, these industries are deep and there are plenty of privately-owned companies whose founders might be willing to sell.

Exit options

All three of the consumer-oriented platforms are seen as potential IPO candidates. According to AVCJ Research, half of the private equity firm's last 10 exits have come via the public markets, not including subsequent sell downs. The earliest of these was Virtus Health in June 2013, which helped reignite investor appetite for PE-backed IPOs following a period of relative inactivity, leading to record levels of liquidity over the ensuing 24 months. However, demand has since

tapered off, with only six offerings featuring PE sponsors this year, compared to 15 last year and 23 the year before that.

"I do not see massive cyclical risk here," says Hadley. "The IPO market will remain viable for assets of certain scale with good growth prospects. Whilst valuations change with market conditions and the timing of exit windows may challenge, the great thing is we can choose when to exit and IPO is only one avenue."

Indeed, Quadrant's last three exits have come via trade sale, with the most recent of particular note. The firm completed the sale of its 49.9% interest in Canberra Data Centers in September as Infratil and Commonwealth Superannuation Corp. bought 96% of the business for A\$1.01 billion, including debt. It generated a 3.4x return and an IRR of more than 85% on a two-year-old investment. Darville notes that the average return on Quadrant's last seven deals is almost exactly 3x. ■

A very fast fundraise

Prospective new investors in funds raised by Quadrant Private Equity typically follow the firm for a couple of years before committing. When the time comes to conduct full due diligence, there is a preference to get as much of the work done in advance because the fundraising process itself has been so short in recent vintages. Approximately six weeks elapsed between Quadrant issuing the private placement memorandum for its eighth fund in early July 2016 and the vehicle's final close at A\$980 million (\$754 million). It was the same for the two previous funds.

"We tend to keep the terms simple and traditional, in line with what we've always done and in line with mainstream conventions. People know what they getting, which makes it smoother for everyone. Also, we tend to wait until we have completed the last investment in the previous fund – or are about to go with it – before launching the next fund, and then we never raise the maximum possible, we work out the fund size and stick to it. That's why it tends to be a quick process," says Marcus Darville, a managing partner with the firm.

As it turned out, there was only space for a handful of new LPs in Fund VIII. The vehicle was substantially oversubscribed and existing backers accounted for the bulk of the corpus. They include sovereign wealth funds, superannuation and pension funds, fund-of-funds, and government entities. This is the third Quadrant vehicle that has been open to international LPs. Fund VI was two thirds domestic and one third international; Fund VII and Fund VIII were more or less a 50-50 split.

"Our primary goal is to have a group of sophisticated LPs who display a consistent approach to private equity investing, understand our investment focus, rate the GP management team, and wish to invest with us over multiple funds. In addition there is a desire to have a balance of types of LP which naturally also includes diversity of geography. Logically LPs based overseas take some confidence when a GP has the support of a number of respected domestic LPs," says Chris Hadley, Quadrant's executive chairman.

Staying disciplined on fund size in the face of strong interest from prospective investors is also a priority. While increasing the hard cap means more fees, the risk is that it also necessitates a change in strategy that takes the GP out of its comfort zone and ultimately undermines

performance. Hadley does not expect to see an uptick in competition from other private equity firms in the middle market, nor does he expect Quadrant to evolve beyond its current sweet spot of transactions with enterprise valuations of A\$200-500 million.

"If the fund achieves timely deployment, executes the investment case and a subsequent realization, then a velocity of capital is achieved. This should more than compensate for the economics of any commitments forgone," he adds.

The firm has achieved that velocity, and if anything it is gradually increasing. Fund VI closed at A\$750 million in December 2010 and Quadrant returned to market approximately three years later. The gap between Fund VII, which closed at A\$850 million, and its successor was two-and-a-half years – suggesting a far swifter pace of deployment than the loose industry standard of five years. Fund VIII is already 40% committed, although Darville notes that the timing of deals can be unpredictable. For example, he spent 18 months working on the final investment in Fund VII.

"The trade off is we fundraise more frequently than many firms but our funds are generally smaller, and that means we can do smaller investments and secure more exclusive deals," he adds. "We could raise a larger fund, but that would have an impact on the number and nature of our investments. We don't want to be waiting on the next auction process or chasing public-to-private deals."

From an LP perspective, rapid deployment means less of a fee drag. The j-curve is shortened because less time is spent paying a 2% annual management fee on money that has yet to be put to work. At the same time, some investors are wary of these situations, asking whether a GP committing capital at such a pace is really targeting the best deals and expressing concerns about vintage diversification.

"I've not had that comment from any LP, although we are very aware of not buying too many assets at the top of a cycle and therefore reducing the fund returns," says Hadley. "Most of our LPs are very large and can easily manage their own vintage diversification. As a discipline we focus on getting cash back to investors early in the life of a fund so that they only have a limited amount of capital in the ground with us."

End to end

FUNDRAISING OF THE YEAR – VENTURE CAPITAL GGV Capital won strong investor support for a Sino-US venture strategy that allows it to back start-ups from seed through growth rounds

GGV CAPITAL'S LATEST VC FUND, UNLIKE

its predecessors, is structured as three separate vehicles. In adding a dedicated early-stage tranche to an existing strategy underpinned by a traditional VC fund and a top-up vehicle, the GP wants to cover the entire venture spectrum: it could theoretically support a company from seed through late-stage growth rounds.

The fund, which was oversubscribed, closed at \$1.2 billion in March, with existing LPs accounting for the majority of commitments. The early-stage vehicle has a corpus of \$250 million, of which more than 80% will be deployed in China. A further \$657 million has been allocated to the main fund, \$225 million for the parallel top-up vehicle, and \$50 million for an entrepreneurs' fund.

"As the VC world has evolved, it's very important for us to understand what our investors want in our fund, as well as our customers," says Jenny Lee, managing partner at GGV. "In this case, the customers are the CEOs,

the founders. We want them to know that we have a product for them at every stage as they grow their companies. That's why we structured it differently than before."

The early-stage vehicle is seen as particularly important given GGV expects to see more Chinese serial entrepreneurs starting new businesses and it wants to team up with these proven players almost from day one. In addition, the early-stage opportunity is likely to become larger as China transitions into a truly innovation-driven economy and the exit market is maturing, with M&A just as prevalent as IPOs, which means more acquisitions at earlier stages.

While seed and Series A rounds involve more risk, GGV seeks to mitigate this by concentrating on sectors with which it is familiar. It has three main targets: social and mobile commerce, the internet-of-things (IoT) and robotics, and software-as-a-service (SaaS) and cloud technology.

The top-up vehicle – which writes larger

checks of \$30-50 million for select companies – is not a new development; a similar entity was raised in 2015, the year after the main fund. However, this time around it was decided to raise all the capital concurrently. "The top-up fund is now better aligned with the main fund, with a fixed ratio of participation by all LPs," says Jixun Foo, managing partner at GGV. "When we raised two vehicles separately there were some conflict considerations for LPs that we needed to consider."

Over the last three years, the firm has added to its value-add capabilities with the introduction of a portfolio services support group that provides standard legal and HR advice as well as recommendations drawn from the experience of four of the firm's venture partners. "Being multi-stages means we must have the appropriate resources to allow us to leverage all the expertise we have built up over the last 15 years and help CEOs in a more sophisticated and customized way," says Lee. ▀

A renewed mandate

FUNDRAISING OF THE YEAR – LARGE CAP Having paid careful attention to liquidity levels in its debut vehicle, PAG Asia Capital took less than seven months to close its second regional fund at \$3.6 billion

WEIJIAN SHAN, GROUP CHAIRMAN

and CEO of PAG Asia Capital, is recognized for arguably the most salient example of a carve-out from state-owned enterprise (SOE) in China, having secured control of Shenzhen Development Bank (SDB) while at Newbridge Capital. Eleven years on from that deal, he wishes there were more examples to look back on.

"It's only from time to time you encounter deals of this nature," he says. "With SDB, the opportunity came about because there were so many non-performing loans and the company was struggling. It was a similar situation with Herald International Financial Leasing, which was acquired by PAG. The operation wasn't going anywhere, it was sub-scale, and its potential was not being fully realized. We are very familiar with financial institutions and so we saw value that the SOE could not see."

Herald, an auto leasing specialist with clients such as Audi, Volkswagen and Volvo, was one of about a dozen portfolio companies in PAG's

debut fund, which closed at \$2.5 billion in 2012. The GP paid around \$100 million for the asset in 2013 and then agreed a sale to BMW towards the end of last year for an undisclosed sum. As of December 2015, the distributions to paid in (DPI) on the fund was 68% - said to be higher than industry peers of a similar vintage.

"We were quite motivated to generate liquidity for our LPs. Many investors are concerned about this in Asia, and particularly in China where there are not many exits and not much liquidity," says Shan. "Arguably we could have held some investments longer, but as a first-time fund we wanted to demonstrate an ability to exit."

These exits likely contributed to a swift fundraising process for Fund II. PAG spent less than seven months in the market, announcing a first and final close of \$3.65 billion – well in excess of the initial target of \$3 billion – in December 2015. The strategy remains the same: a 40-strong team of investment professionals, supported by a

six-person operations team, pursues control deals and structured investments across Asia.

Two announced deals reflect the breadth of transaction type. In August, PAG completed the acquisition of Golden Apple Education Group after spending 12 months disentangling the otherwise healthy company from the creditors of its beleaguered parent. More recently, the firm closed the \$3.6 billion purchase of US-based Lexmark International, working alongside local strategic player Apex Technology and Legend Capital.

Shan is non-committal on whether he expects more of the same from China – or indeed whether further SOE carve-outs are likely – noting that the country has always represented a challenge in terms of deal-sourcing. "It is a market where the trust level is relatively low, so once you have built a reputation or some sort of brand you typically get more than your fair share of the market," he says. "People like to do business with known quantities." ▀

From China to the world

DEAL OF THE YEAR – EARLY STAGE TECH Zai Lab has carved a niche licensing pre-clinical findings from the West for development into drugs in China, but its ambitions are global. Several VCs have faith in the project

SAMANTHA DU, FOUNDER OF CHINA-based biotech company Zai Lab, began her career in the early 1990s as a member of Pfizer's R&D department. She worked her way up the organizational ladder, participating in the global launch of two new drugs and taking responsibility for licensing deals in new markets.

A decade later, with China's biotech industry yet to take off, Du was approached by Hutchison Whampoa – a holding company in Hong Kong tycoon Li Ka-Shing's business empire – to lead a pharmaceutical start-up in Shanghai. After a few months of consideration, Du decided it was worth the risk. She co-founded Hutchison China MediTech and acted as CEO for its R&D subsidiary Hutchison MediPharma, building up a pipeline of oncology and auto-immune treatments.

"I was young and bold," says Du. "What I found in China at that time – in 2001 – was basically there was no concept about innovative drugs. But developing new drugs was my passion. I felt that I could use my knowledge to create a drug development firm based in China but with a global vision."

When China MediTech went public in London in 2006, Du felt ready for a new challenge and took charge of China healthcare investments in Sequoia Capital. She invested in four companies during her two-year tenure, two of which went public. But that ambition to build a global pharmaceutical company remained.

Untapped potential

Despite China's sizeable population, more than 75% of high-quality drugs available globally have not entered the market. This is due to

"Investors can help you, especially those that have industry knowledge"

– Samantha Du

a combination of complicated regulatory approvals processes and foreign companies failing to recognize the potential demand in China or being unable to take advantage of it. At the same time, the local biotech ecosystem is evolving. There is a well-established community of contract research organizations (CRO) that

provide outsourced clinical-trial services to foreign companies, while the government is offering economic and policy support for drug development.

These factors were the impetus for Zai Lab, which Du founded in 2013. The company licenses pre-clinical findings from the West and



J.P. Gan of Qiming Venture Partners

then develop drugs in China, leveraging the comparatively low operating costs. It focuses on oncology, autoimmune and anti-infective treatments. The team has expanded from two to 10; most of the staff have been trained overseas and previously worked for multinationals.

"Attracting global talents to China isn't that difficult if you have a lot of resources. The key problem is it isn't easy for people working in multinationals to transition to a start-up. Transitioning from the US to China is another issue. When you have talented people, you should make sure that the team works closely," Du says.

Nisa Leung, managing partner at Qiming Venture Partners, has known Du for many years. Leung describes Du as an "unusual type of entrepreneur" in that her background at Pfizer, as an investor at Sequoia and now as a founder means she can attract talented people and deliver high-quality work. Qiming led a \$30 million Series A round for Zai Lab in August 2014, with KPCB, Sequoia, TF Capital, and domestic CRO TigerMed also participating.

Few VC firms are keen to invest in China's

early-stage drug discovery space because the development cycle is long and risky. Taking a new drug from clinical testing to commercialization is a 7-10 year process and the success rate is less than 1%. But Du's strategy of licensing pre-clinical findings with proven concepts from overseas partners offers more visibility.

Shortly before the Series A closed, Zai Lab obtained a license from Sanofi for two novel compounds that could potentially be used to treat chronic respiratory diseases. Over the course of 2015, the company entered into three further licensing agreements: with Bristol-Myers Squibb for exclusive rights in China to commercialize a cancer treatment in phase three development; with UCB to work on a drug targeting autoimmune and other inflammatory diseases set to enter phase one trials this year; and with Korea's Hanmi Pharm to develop a lung cancer treatment.

Building momentum

This momentum has drawn in other investors. Earlier in 2016, Advantech Capital, one of the two new funds launched by executives from Chinese GP New Horizon Capital, led a \$100 million Series B round for Zai Lab. OrbiMed also took part, as did Qiming, Sequoia and TF Capital.

"It's a good combination of local and global investors. Looking at all healthcare investments over the last two years, you seldom find investor groups like this," Du says. "Taking VC money is a good thing. Investors can help you, especially those that have industry knowledge. Nisa, Jianming Yu [founder of Advantech], KPCB and OrbiMed are all successful investors and I trust them."

Zai Lab may now be on course to establish itself as a drug developer "in China for China," but that initial ambition remains the same: to go global, selling drugs developed entirely in house or treatments initiated by third parties. To this end, the company recently secured the global rights – including global commercialization – to two anti-inflammatory candidates from GSK, one in phase two trials and the other in pre-clinical development.

"Headquartered in Shanghai, Zai Lab aspires to sell drugs all over the world. It could be direct, or work with partners, and it will own the rights of these drugs in greater China or globally," says Leung. "That's what Zai Lab would like to be – the Genentech of China. It's a big dream, but I think we can do it." ▀



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Feet on the ground

VENTURE CAPITAL PROFESSIONAL OF THE YEAR Shailendra Singh, managing director at Sequoia Capital India, discusses the long-term thinking in emerging markets' rapidly changing tech ecosystems

Q: Sequoia has been investing in India for just over a decade. What have you found to be the most important consideration in this market?

A: Sequoia really tries to think of a decade-long investment process for each company, and as we reach our 10-year mark in India we find that several of our investments that are seven, eight, or nine years old are just now hitting their stride. One way in which investing in India and Southeast Asia are similar is that unlike the US and China, the likelihood of an overnight hit is much lower, so you need to have an extremely patient, long-term approach. And I think that's true of all emerging markets because there are more challenges to building a company, more friction, volatility, market swings and so on.

Q: How does Sequoia differentiate itself from other firms?

A: We try to stay away from taking too many point-in-time views. Eighteen months ago you could have taken the view that it's so hot, it's all happening. And now you might think that it's cooled off, and valuations have corrected. But really not that much has changed. In emerging markets, a handful of firms or the enthusiasm of a few individuals can create or deflate sentiment. But we are betting on the underlying growth trajectory, a very core shift to technology-led disruption across industries.

Q: How has this approach played out for Sequoia in recent years?

A: In 2015 the firm was quite fortunate. Sequoia made a careful call that when Indian markets started to get hot in 2014, rather than chasing valuations up, we would make early-stage investments in India and explore opportunities in Southeast Asia. Investments were made in Tokopedia and Go-Jek and Carousell, and a few other companies in Southeast Asia, which now all look quite promising. So at the time we decided to evaluate Southeast Asia, about three years ago, that was a terrific vintage to have started evaluating, and then the firm was actively investing in late 2014 and 2015, which were very good vintages. We adjusted to the hype cycle in India, and that helped us a lot.

Q: What role do start-up founders play in Sequoia's investment decisions?

A: Clearly founders are the center of building tech companies, because these companies have to change and evolve their strategies extremely quickly. Even fast-growing companies, early in their cycles, might see disruptive young companies come through. A large percentage of unicorn founders would tell you that rather than fearing other unicorns, they probably fear the young disrupters more. So I think the pace of change has evolved so much that you really need great founders who are not just good at what they do today, but have the power to keep changing really fast in the future. That's not

a cornerstone of our founder engagement model. It's a deeper engagement model than most firms pursue, and it's meant to fit what we've found in India and Southeast Asia.

Q: India has become known as a difficult market for exits. Has this impacted Sequoia?

A: We feel that exits are a function of the quality of the portfolio. The dilemma is that there are lots of people willing to buy your stake in your best companies, but those are also the companies you don't want to sell. If you take early exits, you've put runs on the board

“If you ask most of the unicorn founders, a large percentage of them will tell you that rather than fearing other unicorns, they probably fear the young disrupters”



easy for us to judge when we invest, but we try to evaluate founder quality as much as we can, and it's central to our decisions.

Q: What challenges do you see facing start-ups in India and Southeast Asia, and what benefit does Sequoia bring in overcoming these issues?

A: These companies exist in fundamentally higher-friction economies, and therefore it really helps founders if you can support them in different functional areas. In addition, many of our companies are going to become global much faster. This is a very big difference in our portfolio versus, for example, the Sequoia China portfolio, where companies tend to be much more internally focused. So we try to work on international business development, with go-to-market strategies in multiple countries, and with technology building. For example, one of our Indonesian portfolio companies was in India for a weekend visit. Our recruiting team and our tech team set up 27 interviews with candidates over Saturday and Sunday in two different cities so the Indonesian company could hire tech talent. These portfolio services have been

but you'll give up material upside. So what happens is, if the market is not so fertile from an exit standpoint, then it becomes quite hard to exit the second or third quartile of portfolio companies. But you don't want to sell your first quartile companies, you have a little bit of a chicken-and-egg dilemma.

Q: What do you see as productive exit routes for your Indian companies?

A: This year has been very strong for Indian public markets. We've seen three Sequoia India companies go public, and two more that have filed. We've also had multiple M&A events in the portfolio. A lot of global strategic players are making minority investments in Indian tech companies: Tencent Holdings recently led an investment in Practo, Alibaba Group has made investments in Paytm, and Ford invested in Zoomcar, and so on. I think we are seeing the first phase of forays from the international big balance sheets, where they're buying minority stakes. As they get more comfortable and build a stronger conviction around the market, I think many of these minority investments have the potential to lead to full M&A. ▀

ASIA Private Equity Forum 2017

18 January, 2017 (Wed)
Hong Kong Convention and Exhibition Centre

Date: 18 January, 2017 (Wed)

Time: 8:30 am - 5:30 pm followed by cocktail reception

Venue: S421, Hong Kong Convention and Exhibition Centre (Old Wing), 1 Expo Drive, Wan Chai, Hong Kong



Opening Remarks

Tsang Chun-wah, John, GBM, JP
Financial Secretary
HKSAR Government



Opening Keynote

David Wei
Chairman & Founding Partner
Vision Knight Capital



Luncheon Keynote

Jean Salata
Chief Executive & Founding Partner
Baring Private Equity Asia



Closing Keynote

Ming Lu
Head of Asia Private Equity
KKR



James Ahn
Partner
Principle Capital



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Services Practice & Board of
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Indonesian outlier

DEAL OF THE YEAR – LATE STAGE TECH As an early-mover in Indonesia's online-to-offline space, Go-Jek has built up a presence in 14 verticals. Its Series D round is intended to help consolidate this dominant position

FOR KKR, LOOKING AT HOW ONLINE-TO-OFFLINE (O2O) business models have evolved in more developed markets served to make the firm more comfortable about the prospects for Indonesia and more convinced that, in Go-Jek, it was backing a company that is in some respects unique.

Whereas Uber has carved out a dominant position in the ride-hailing market across North America and Europe, food delivery – the other mainstay of O2O services, distinguished by a similar tendency towards high-volume usage – has been the preserve of other providers. The recently launched UberEats faces entrenched competition in the likes of GrubHub, Seamless and Deliveroo. Even in China and India, there are, at least for now, established independent players in each segment. Go-Jek, by contrast, leads the way in ride-hailing and food, and has its sights set on over a dozen other service offerings.

"In many markets you see interesting internet companies, but they tend to be more vertically focused. Because the Indonesian market is still developing, you haven't got to the point where there are a lot of local competitors, so one company can go into adjacent spaces," says Terence Lee, a director for private equity at KKR. "Technology is one of the many sectors we look at, but if it's too early or too small we might rule a company out. Go-Jek is further along, it has scale. And the company stood out because it has achieved a lot over a short period of time."

Growth on growth

Indeed, in the space of five years, Go-Jek apps had been downloaded more than 20 million times as of June, while the company recorded 20 million bookings across its platform in that month alone. The company has a fleet of more than 200,000 drivers who transport people, packages and food. Go-Jek now delivers more meals than any other company in the world outside of China, with over 15 million deliveries since launch.

These numbers gave KKR, Warburg Pincus, Farallon Capital and Capital Group Private Markets – plus some existing investors – the confidence to commit in excess of \$550 million in Series D funding to Go-Jek in August. The capital, said to equate to a post-money valuation

of around \$1.3 billion, will be used to help the company consolidate its market-leading position.

Go-Jek, which takes its name from the ojek motorcycle taxis that are part of urban life in Indonesia, was founded by Nadiem Makarim, a Jakarta native educated at Brown University and Harvard Business School. He bootstrapped the business, switching from a call center-based service to a mobile app as smart phones took hold of the country. Around this time the company received Series A funding from NSI Ventures. It was followed by Series B and C

successful and we are fully cognizant of that, but we think we could easily get more than 20 distinct products," he says. Makarim adds that Go-Jek makes a point of not having long-term plans because external forces such as competition and new technologies could transform the industry. The key is to be nimble enough to move in tandem with the market.

Growing pains

Expanding at this speed inevitably brings growing pains, whether it is scaling the technology, hiring competent staff, managing driver and customer expectations, preserving a healthy company culture, or ensuring a consistent quality of service when expanding into multiple cities. On the technology side, Go-Jek has made four acquisitions of India-based engineering teams, targeting companies that it previously worked with on an arm's length basis.

On top of all that, the company is engaged in a fierce competitive battle, chiefly with Southeast Asia-focused Grab and global player Uber. All three groups have yet to turn profitable in Indonesia due to the subsidies they pay out in order to preserve market share.

"Subsidies can be an issue, but we've seen how this has played out in China. It is very hard to compete with a local player when you are focused on multiple markets," Jeffrey Perlman, head of Southeast Asia at Warburg Pincus, told AVCJ shortly after the Series D closed. "In Southeast Asia the countries are so different – the rules, the regulations, the

customers – that I think it's easier to be a single country, multi-vertical player than a multi-country single vertical player."

The implication is that Indonesia – or Southeast Asia more broadly – will follow the trend seen in China over the last year whereby cutthroat competition has been ended through mergers. "Given the fact all the players are highly capitalized and the prospect of one or several parties dying is almost an impossibility at this stage, at some point, if we are going to make money, it is likely there will be change in the market," Makarim observes. "Whether it happens sooner or later I have no idea. It is definitely not something we would consider while executing our current strategy." ▀



Dorothea Koo of Baker & McKenzie (left) with Steve Okun of KKR

"If it's too early or too small we might rule a company out. Go-Jek is further along"

– Terence Lee

rounds that also featured Northstar Group, to which NSI is affiliated, and Sequoia Capital.

The product offering now spans 14 different O2O services at various stages of development, from hair and beauty to drug delivery to a mobile wallet. Go-Jek considers two factors when expanding into new verticals: whether it classifies as a big spend for Indonesia's middle class; and whether it offers synergies with existing transportation-based services. Makarim sees the possibilities as limitless.

"We have already amassed a huge number of loyal customers and the cost of not trying is sometimes greater than the cost of trying. We see the Go-Jek app as a big playground to test digital ideas. Not all of them are going to be

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A tasty combination

DEAL OF THE YEAR – MID CAP Keen to leverage growth in fast-casual dining, The Longreach Group realized a rare inroad into Japan's chain restaurant space by pairing Wendy's with local operator First Kitchen

WHEN US HAMBURGER GIANT WENDY'S exited the Japanese market in late 2009, it sold 71 restaurants to Higa Industries, which in turn targeted an expansion to 100 outlets. A range of factors, notably including high real estate costs, effectively snuffed the Higa plan, and by mid-2016 Wendy's Japan had only one location.

This was about the time North Asia-focused buyout firm The Longreach Group entered the picture with its acquisition of the struggling company in a two-part deal that also secured a more established local restaurant chain, First Kitchen. The idea was to leverage First Kitchen's 136 existing locations as a more economic springboard for proliferating the Wendy's brand in an expensive real estate market.

"In evaluating the investment, that is one key element that made it very interesting for us, because one of the challenges growing a QSR [quick service restaurant] franchise is finding the right locations and the right foot traffic," says Mark Chiba, group chairman and partner at Longreach. "Rather than finding locations piecemeal, the First Kitchen platform can deliver an immediately scalable platform through prime locations that are being remodeled under a thoughtful conversion plan."

Longreach – which targets buyouts in the range of \$30-200 million – executed the transaction for an undisclosed sum with both Higa and First Kitchen owner Suntory Holdings. Since 1977, Suntory had helped diversify First Kitchen's more domestically traditional offering into pizza, pasta and fried chicken, but had ceased to grow the brand.

A better user experience

As part of the deal, Higa President Ernie Higa – a Hawaiian who brought Domino's Pizza to Japan before its sale to Bain Capital in 2010 – is expected to be a valuable US contact for Longreach as it institutionalizes the leadership bench, deepens execution power and manages exclusive Japanese franchise rights for the global chain. He is also set to fill the role of chairman for the combined Wendy's First Choice brand after having already managed the new franchise's early-stage ramp-up from two to four Tokyo locations.

"Ernie's done a superb job of fusing the Japan-oriented taste at First Kitchen with the Western menu at Wendy's, which is also very popular," Chiba says. "The two test restaurants pre our acquisition, and the conversions since, have really

validated this locally sensitive and more upscale menu co-branding strategy."

Ambiance is one of the keys to Longreach's plan in the "value-to-premium" QSR segment. As such, the ongoing roll-out of Wendy's First Kitchen restaurant conversions is expected to be characterized by multi-story makeovers that focus more on accompanying creature comforts than the molded plastic of a typical fast food layouts.

"It's a true combination of Wendy's and First Kitchen – with branding, menu and the customer experience fusing the best of both. The menu and the venue have a different style and should have wider appeal than a fast food chain like McDonald's," Chiba explains. "The seating is more comfortable and the atmosphere upscale – more like a Starbucks concept. I think it is something that's increasingly attractive in Japan and across Asia, for a sophisticated but value conscious growing middle class."

While the rise of fast-casual versus fast food has been an evident growth story for years in the North American restaurant industry, its potential in other markets has not yet been fully realized. A branding shift away from the traditional style of fast food restaurants also benefits from evolving trends in demand for healthier meal choices. This has recently been highlighted in Japan by McDonald's, which posted its first annual operating loss since 2001 last year on the back of a string of food-safety concerns.

"Due to scandals involving McDonald's, the overall hamburger fast food market in Japan

"The menu and the venue have a different style and should have wider appeal than a fast food chain like McDonald's"

– Mark Chiba

had been on downtrend until 2015. Although the McDonald's sales have been recovering in 2016, they have not recovered to the levels seen prior to the scandals," says Mariko Takemura, lead analyst at Euromonitor International. "Meanwhile, premium hamburger chains are entering Japan, such as Shake Shack, Carl's Jr and Bareburger, which get higher attention among the younger

generations. Although they are still niche in the market, these premium chains are more likely to expand in Japan."

Cross-border support

Wendy's First Kitchen appears set to benefit from these trends with a unique combination of cross-border support. The Wendy's system includes about 6,500 restaurants in 29 countries, bringing



Baker & McKenzie's Tetsuo Tsujimoto (left) and Mark Chiba of The Longreach Group

an operating perspective that could prove invaluable for an aspiring chain contending with fierce competition from entrenched rivals.

Meanwhile, First Kitchen – which is often recognized as Japan's leading restaurant for burgers and pasta – offers a local perspective that international entrants typically lack. Indeed, Wendy's decision not to renew its local franchise agreement in 2009 was attributed not only to real estate costs but challenges related to making the right cultural impact.

With these synergies, the expansion will continue to focus on Tokyo in the near term, although the hybrid outlets will roll out nationwide in time and new stores beyond First Kitchen's current portfolio are also a part of the plan. Momentum in the meantime has been characterized by early signs of positive sentiment, with Longreach reporting that the first refurbished restaurants are connecting not only with consumers, but with staff as well.

"It's very early days but it is a really positive reception, and one interesting sign is that the employees at First Kitchen are really on board in terms of the conversions and the new brand," Chiba says. "They're so keen to be part of the new concept as soon as possible."

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Back from the brink

DEAL OF THE YEAR – LARGE CAP PAG Asia Capital spent 12 months negotiating over Golden Apple Education Group, but emerged with the first sizeable buyout-cum-restructuring by a foreign PE firm in China

OVER THE COURSE OF 12 MONTHS, THE

PAG Asia Capital team collectively spent over 1,000 nights in Chengdu as they sought to acquire control of Golden Apple Education Group, the leading branded kindergarten chain in the western China city. During this period they engaged in more than 600 negotiation sessions with approximately 100 creditors, finally securing a \$200 million deal in August 2016. It is said to be the first sizeable foreign private equity-led buyout cum debt restructuring ever seen in China.

"Had it got to a formal bankruptcy process, it would have taken a long time to sort through the different claims and collateral, and the banks wouldn't see any cash for three years. It would also probably have meant a meaningful deterioration in the value of the asset, because the value is in the kindergarten franchise rather than its underlying assets," says David Wong, the PAG partner who led the deal. "The creditors didn't really know what to do and they hoped someone would come in and figure it out."

Distress dilemma

Golden Apple is longstanding business with 33 kindergartens and two primary schools, serving about 12,000 children. It is also cash generative and the fees represent a strong recurring source of income; the company saw compound annual growth of more than 20% in terms of revenue and EBITDA over the last three years.

The problem was Golden Apple's parent company, Sichuan Harmony Group, a real estate developer that ran into severe liquidity issues and defaulted on its obligations to creditors in mid-2014. Harmony Group knew it needed to sell assets in order to service its debts, but it wasn't clear what could be sold: all the assets were enforced against and the creditors had different claims against various pieces of the group. Disputes had already broken out, resulting in creditors cross-freezing and cross-enforcing on assets. How could the company come up with a solution that satisfied all parties?

Having heard about the situation through one of the creditor banks, this was the question PAG sought to answer over those 12 months. The nature of the creditors was an added complication. In addition to 18 joint stock and city commercial banks, Harmony Group owed money to 80 non-bank creditors, including individuals, small loan companies and informal investment organizations of dubious legitimacy that pooled capital from hundreds of different



Simon de Young of Baker & McKenzie (left) with PAG Asia Capital's Tim Morrison

people, many of them unsophisticated investors.

"Banks are normally more rational or institutional. They can sit down, discuss a situation, and form a committee that decides what to do. But with so many non-bank creditors involved – some of them people you wouldn't want to run into in the street – it is difficult to have a typical creditor committee workout process," Wong explains. "We had to negotiate with everyone all the time in the hope that we would end up with a position on which everyone could agree."

PAG ran these negotiations in conjunction with Harmony Group and the Sichuan Financial Asset Exchange. The restructuring saw the non-bank creditors take a meaningful haircut on their claims and get paid out completely, while the banks agreed to extend their existing facilities to Harmony Group with a view to achieving payment through the sale of other assets. Of the 50-plus large enterprises in Sichuan province that has defaulted on debt obligations in the last two years, Harmony Group is the only one to execute a market-oriented restructuring.

The next phase

Now in control of Golden Apple, PAG's plans for the asset involve broadening its service offering. While at present the company caters to children from kindergarten through grade six – the final year of primary level education – it wants to cover the entire spectrum to grade 12.

"We are building out that capability now with

a school that has a capacity of 3,000. Hopefully we can capture more of the students that come out of our existing kindergarten and primary schools," Wong explains. "Parents are looking for one-stop solutions. If they participate in a single, wider program they don't have to worry about matriculation and entrance exams to qualify for the next level of school."

This does not come without risk. Kindergarten and high school in China are relatively open to foreign investment, but the years in between that comprise compulsory education are more closely controlled by government. Historically, there has been a preference for non-profit models, to the extent that private capital has been allowed in at all, but in recent years regulatory attitudes have loosened somewhat.

For PAG, the return on making the breakthrough could be considerable. Barriers to entry are higher than in the less regulated areas of education, so there is less private competition and therefore more of an opportunity to charge a premium for services. In addition, there are economies of scale that can be achieved in infrastructure and management by serving a wider range of ages in a single high-density urban area like Chengdu.

As to whether Golden Apple also represents a panacea in terms of private equity targeting debt restructuring situations, Wong is circumspect.

"We had to negotiate with everyone all the time"

– David Wong

While the mounting number of non-performing loans (NPLs) on the books of China's banks means more distressed assets will likely be made available to private investors, addressing the opportunity from an equity perspective requires a change in mindset.

"Non-performing asset (NPA) investment in China has historically involved buying the underlying collateral, which tends to be real estate," he says. "Little attention has been paid to franchise-based business that could potentially be carved out of NPAs – mainly because the people who work on these deals are credit guys rather than equity guys. I hope there will be more opportunities for us, but it's not easy identifying viable or valuable assets." ▀

In focus

EXIT OF THE YEAR – IPO Moving from a privatization in the US to a re-listing in Shenzhen through a reverse merger – in the space of 30 months – Focus Media blazed a trail that others have sought to follow

FOLLOWING A HANDFUL OF ACCOUNTING

scandals, it became open season on US-listed Chinese companies in 2011 as short-sellers probed balance sheets for weaknesses. Their findings were shared with the world, even if the discrepancies were more perceived than real. Focus Media was no exception, repeatedly coming under attack from Muddy Waters, which accused it of overstating assets and overpaying for acquisitions.

The company denied the allegations but its shares came under pressure. In May 2013, eight years after debuting on NASDAQ, Focus Media made its exit: CEO Jason Jiang, and a group of investors – including The Carlyle Group, FountainVest Partners, CITIC Capital Partners, China Everbright and Primavera Capital – took the company private in a deal worth \$3.7 billion.

Carlyle was an investor in Focus Media prior to its 2005 IPO, and despite making a full exit, the GP maintained a close relationship with Jiang. When an opportunity presented itself to back the company once again, the Asia buyout team was happy to participate. Others followed suit.

“Almost every private equity firm looking at take-private opportunities would have reviewed Focus Media because it had strong cash flow. The industry itself also had strong growth prospects in China due to rising domestic consumption,” says Henry Tao, a managing director in China Everbright’s capital investment and financing department.

Focus Media operates an advertising network in various urban locations, relying on audiovisual displays in commercial office buildings as well as large retail chain stores. Revenue came to \$792.6 million in 2011, up 54% year-on-year, while net income rose marginally to \$200.9 million.

Fosun International, the largest shareholder after Jiang, agreed to join the consortium by rolling over its stake into the acquisition vehicle, and \$1.5 billion in aggregate debt financing was secured for the deal – the largest leveraged buyout in China at that time. A dividend recap was done within six months of the deal closing, such as the company’s cash generative powers.

Private to public

The plan was to re-list the business in Hong Kong, but this switched to a reverse merger in Shenzhen because Chinese regulators were keen to see overseas-listed companies come home. The deal’s certainty outweighed its legal and administrative complexities.

“It was about a one-year process, from meeting the regulator to completing the reverse merger in December 2015. One of the difficulties was finding a suitable company to reverse into – there is always a reason why these companies are willing to be sold, maybe their core business has hit a bump or there are other issues,” says Frank Tang, CEO of FountainVest.

Last May it was announced that Shenzhen-listed Jiangsu Hongda New Material would acquire Focus Media for RMB45.7 billion (\$7.37 billion). One month earlier, a group of shareholders – including Carlyle, FountainVest,

“There is always a reason why these companies are willing to be sold”

– Frank Tang



Frank Tang of FountainVest Partners

Fosun, CITIC, China Everbright and Primavera – made partial exits in a deal that valued the business at RMB45 billion as an effort to remove the red chip offshore listing structure and become an onshore-controlled entity.

However, the resignation of Hongda’s chairman after a regulatory probe stalled the re-listing. It was replaced as the shell by Hedy Holdings, another Shenzhen-listed company, on

identical terms. Hedy exchanged assets worth RMB880 million with Focus Media and paid RMB4.93 billion in cash to Focus Media China Holdings (FMCH), an offshore shareholding entity. It also issued 3.8 billion shares in exchange for Focus Media stock – excluding FMCH – for a total consideration of RMB39.7 billion.

On completion of the re-listing, China Everbright, which committed \$50 million to the privatization, held a 1.35% stake in Focus Media. CITIC Capital had 9.13%, Carlyle and FountainVest each had 7.85%, while Fosun and Primavera owned 8.09% and 0.67%, respectively. As of early December, the company’s market capitalization was RMB140 billion. Revenue increased 15% year-on-year to RMB7.5 billion in 2015, with net profit jumping from RMB2.4 billion to RMB3.4 billion.

Upside potential

Tang observes that exits “take a lot of hard work and occasionally some good luck,” and the Focus Media liquidity event appears to have been well-timed. Since the end of last year, China is said to have suspended listings by companies that were taken private in the US. This reflects concerns about multiples arbitrage plays – driven by desire to flip a business into a listing as soon as possible, leveraging the valuation gap between onshore and offshore markets – that have caused speculation on shell companies and general price volatility.

Participants in the Focus Media deal stress that they were attracted by the company’s fundamentals, not an arbitrage opportunity. And in two cases, relations between the investors and the portfolio company will continue long after the lock-up period on the shares expires.

FountainVest and China Everbright are working with Focus Media on separate industry-focused funds targeting the broad consumer space, from sport and entertainment to internet finance. The aim is to scale up exposure throughout the consumer value chain, taking advantage of the shift in Focus Media’s customer base from carmakers and liquor manufacturers to e-commerce and media companies.

“Even before the listing, investors suggested that Focus Media adopt a multiple business expansion plan,” says Tao. “One approach is to add more internet flavors to its core business. For example, as more e-commerce companies appear on its advertising platform, Focus Media can identify trends and source the best deals in these areas.”

Lending a hand

EXIT OF THE YEAR – MID CAP Golden Foods Siam was struggling when Navis Capital Partners took it over, but the GP's willingness to give management the needed tools helped generate a 3.4x return

IT WAS AN UNUSUAL TIME FOR NAVIS

Capital Partners to be considering a major investment in one of its portfolio companies. The firm's holding in Thailand-based cooked chicken producer Golden Foods Siam (GFS) was more than four years along, and management was already considering exit options. Another owner might have been tempted to leave a substantial construction project such as the proposed feed mill for the next buyer.

But the GP went ahead with the project, confident that the benefit to the company in increased self-sufficiency outweighed any complications that might arise in the exit process. Though the feed mill had long been under discussion, a recent decision to buy feed from fellow Navis portfolio company Bangkok Ranch had demonstrated the value of bringing the company's supply chain in-house.

"From Bangkok Ranch we suddenly saw how profitable it was to be the feed supplier, which opened our eyes to how much profit our suppliers were gaining from us," remembers David Ireland, a partner at Navis. "So that really accelerated our decision, and though it was quite late in the investment it turned out to be a great move."

For Ireland, Navis' willingness to push for new improvements, even at such a late stage, shows the strength of its commitment. Looking back after exiting the company to Brazilian raw poultry producer BRF, he is confident GFS remains on course to become one of the world's major cooked chicken suppliers.

Problem child

GFS was struggling when Navis bought it in 2009, although the GP didn't see a problem with the company itself. The management team was strong and Thailand's position as the world's third-largest exporter of cooked poultry offered potential for growth. But the owners had never shown it the support that could help it realize its potential.

GFS had passed through several hands since its founding in 1997 as Golden Foods International. UK-based Grampian Country Foods Group, which bought the company in 2001, was itself bought out by Dutch conglomerate VION Food Group seven years later.

The rotating ownership had made it difficult

for management to secure backing for needed upgrades, and the company was languishing behind more focused family-run businesses such as Charoen Pokphand Foods (CPF). VION was seeking buyers, but the performance had left suitors skeptical. Navis felt all that was needed was for GFS' leadership to be let off the leash.

"It wasn't such a difficult decision for us to go forward, particularly when we saw what we liked in the management team and a very

"We wanted to control our supply chain a little bit more, so we invested in a couple of agricultural assets, expanded our breeding capability, expanded our hatchery, and so on," Ireland says. "Those weren't dramatic or large investments, but it was an attempt to gain more control and not be impacted by outside suppliers as much as they had been in the past."

With the awaited upgrades coming online, GFS' performance has substantially improved.

It has become Thailand's third-biggest cooked chicken producer, behind CPF and multinational Cargill. The company has also made significant progress expanding its customer base in markets such as the Middle East, Korea and Southeast Asia.

Active suitors

It didn't take long for GFS' progress to catch the eye of potential acquirers. Navis had always seen a strategic player as the best bet to take over the company, and BRF was a natural fit. As a leading raw chicken exporter in the industry's most important region, South America, it had the sector expertise and professional networks to take GFS to the next level.

"It's all part of their global outreach, selling into the same markets that we did, and maybe accelerating that now because they have greater resources," says Ireland. "They have a bigger footprint and they have offices in places where they're already selling raw Brazilian chicken, where they can now funnel some of the GFS product."

However, BRF could not take control of GFS right away. The company's success had brought other potential buyers, and Navis was able to benefit from their competition. Ultimately BRF won out, and the GP walked away with \$360 million and a return of 3.4x. The process was one final payoff for the investor. Though GFS was undervalued at the time of investment, Navis was confident that buyers would recognize the opportunity once it was on the right track.

"The company was attractive because it was really the only asset of that size that was going to come for sale in Thailand, because all the others are more or less controlled by families," Ireland explains. "So we were able to get a good competitive dynamic going and that ultimately enabled us to get a better price." ▀



Eric Wang of Alvarez & Marsal (center) with Rodney Muse and Nick Bloy of Navis Capital Partners

"It was an attempt to gain more control and not be impacted by outside suppliers"

– David Ireland

clear growth path," says Ireland. "In addition, because there wasn't much interest at the time from other parties, we were able to get in at a good valuation." The firm quickly made good its interest, paying an undisclosed amount for a 100% stake.

Determined not to repeat the mistakes of the previous owners, Navis set out immediately to put long-requested improvements in place. The first project was a new cooking facility, which was underway within months of the acquisition. The plant has doubled GFS' cooking capacity, giving it the production strength to expand beyond its core markets of Japan and the UK.

Other improvements were aimed at helping GFS separate to some degree from fluctuations in commodity prices. The new mill was the culmination of these projects, which continued to some degree throughout Navis' ownership.

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Tapping the entertainment value chain

EXIT OF THE YEAR – LARGE CAP Vertical integration and growing interest in Korean media assets enabled Affinity Equity Partners to secure a strong return on Loen Entertainment, far quicker than anticipated

WHENEVER SOMEONE DOWNLOADS A

song or streams a music video via MelOn – a hybrid of iTunes and Spotify, and the preeminent digital music delivery platform in Korea – parent company Loen Entertainment gets a 30-40% cut of the proceeds. The remainder is divided up among songwriters, artists, production houses and distributors.

For Affinity Equity Partners, the primary objective on acquiring a majority stake in Loen in September 2013 was to control a larger part of this value chain. Just as vertical integration has become key to the business plans of Netflix, Amazon and Hulu, all of which are now looking to own content rather than serve as third-party distributors, Loen snapped up record labels, production houses and even artist management businesses.

It is now a hybrid of iTunes, Spotify, Universal Music Group and Creative Artists Agency – which is one of the reasons why Kakao Corporation was willing to pay KRW1.87 trillion (\$1.55 billion) for a 76.4% interest in the business in March of this year, securing Affinity a KRW1.5 trillion windfall and a return of more than 6x.

“Loen gets a larger share of that 60-70%, but perhaps more important are the strategic benefits of vertical integration that are not easily quantifiable,” a representative of the private equity firm explains. “By having the supporting infrastructure in house the company is also able to build a better network in terms of other artists, song writers and producers. It can identify which third-party artists could become hit makers and try to get the distribution rights for those artists.”

Non-core divestment

The Loen acquisition came about because the conglomerates that dominate Korea’s economy through intricate cross-shareholding webs were under pressure to divest non-core assets. Specifically, the government decreed that great grandson companies – the subsidiary of a subsidiary owned by a conglomerate – had to be fully owned or majority control divested. SK Group had various companies that fell into this category and Affinity made its approach before a decision had been taken on making a tender offer for locally-listed Loen and privatizing it or selling a majority stake.

When SK opted for the latter course of action, the private equity firm moved quickly, buying a 52.6% interest from the conglomerate and a further 8.8% stake from Real Networks. The

total equity consideration was \$190 million. SK retained a 15% holding.

Much of the due diligence had focused on the music download and streaming side of the business, which then accounted for 90% of revenue, and there were concerted value creation efforts in this area. The website and mobile app underwent a revamp intended to enrich the user experience, and additional elements were introduced such as e-commerce, concert ticket sales and a karaoke function that allows users to sing duets with artists. Big data analytics also made for a more efficient and targeted service.

Meanwhile, bolt-on acquisitions transformed Loen’s other capabilities. Purchases included production house Starship Entertainment and artist management business A Cube Entertainment, home to popular girl group A Pink and top male singer Huh Gak, among others. King Kong Entertainment took the company into artist management beyond the music sphere, with actor Kwang-Soo Lee – best known as a cast member in popular Korean variety TV show “Running Man” – now on the books.

Affinity also took steps to improve analyst coverage of Loen, reorganizing the investor relations and public relations functions and taking the company on non-deal road shows to markets such as Hong Kong. By the time of exit, the number of analysts following Loen had risen from one to a dozen, both domestic and foreign.

“The stock market didn’t understand the company very well”

“The stock market didn’t understand the company very well. It was trading as if it were a large and mature mobile operator like SK Telecom, which is now seen almost as utility companies,” says the Affinity representative. “It was not seen as an entertainment company with the potential to ride the k-pop wave like YG Entertainment or SM Entertainment, and it wasn’t seen in the same way as mobile internet companies such as Kakao or Naver-owned Line. We had to change the market perception.”

By the numbers

During the ownership period, Loen’s share



Affinity Equity Partners’ Queenie Ho

price rose by 570%. The company generated revenue of KRW357.6 billion in 2015, up 42% on the 2013 total, while net income increased 47% to KRW50.3 billion over the same period. Furthermore, Affinity boosted average annual capital expenditure by 18% and increased headcount by more than 50%, delivering a 41% gain in paying members, a 40% jump in average revenue per user, and EBITDA growth of 63%.

Geographical expansion was another element of the value-add process, with Loen entering into two joint ventures with Chinese partners. Korea’s cultural cachet and the interest this has aroused from strategic and financial investors in everything from popular music to TV dramas to cosmetics was of undoubted benefit when it came to exit. Kakao and Daum Communications – which merged in 2014, bringing together the country’s top mobile messaging provider and one of its leading web portals – were both seen as potential buyers. So too was Naver, and dialogues were initiated at an early stage.

However, the number of inbound inquiries Affinity received from multiple prospective overseas buyers as well as from domestic groups, to a certain extent forced the issue. “Our base case was to hold the asset for five years,” says the Affinity representative. “But we started getting approached by potential buyers – sometimes these discussions are about strategic alliances and progress from there – and we realized our exit could be faster than we had anticipated.”

Hard-fought gains

OPERATIONAL VALUE ADD NewQuest Capital Partners inspired fellow shareholders in China Hydroelectric to back an aggressive take-private and achieve a seven-fold hike in equity value

AT FIRST GLANCE, THE OVERALL

timeframe of NewQuest Capital Partners' turnaround of China Hydroelectric appears normal, even rapid by infrastructure standards. But the four-and-a-half-year arc from initial investment in April 2011 to full exit in September 2015 belies an uncommonly protracted struggle for control, especially in the context of an asset class typically characterized by efficient single-transaction buyouts.

The private equity firm acquired a 24% stake in the electricity provider as part of a portfolio of assets about a year after the company's New York Stock Exchange IPO. The plan was to help a stable, physical asset-driven business achieve its maximum potential through a significant but essentially passive minority position.

financing and then a further \$100 million when it went public in January 2010.

The company's top management was well credentialed in the hydropower space and by mid-2012 it had helped establish a fleet of 26 power projects generating 548 megawatts across four provinces in China. But despite EBITDA reaching \$42.8 million in the first half of 2012, up 107% year-on-year, nearly \$700 million of value was wiped out by the share price plunge.

Meanwhile, high-profile fraud allegations against a number of US-listed Chinese companies were impacting valuations across the board, even for operators that were not under any suspicion such as China Hydro. This sentiment factor compounded the company's woes but was by no means the primary problem.

overwhelming support from shareholders who understood what we were trying to do and believed in us."

The proxy fight, initiated in August 2012, mobilized a 40% shareholder consortium including Swiss Re, Tsing Capital and Aqua Resources as well as two family offices, Abrax and IWU International. This group claimed at the time to have invested approximately \$170 million in the company since 2008.

The contest ultimately resulted in the replacement of almost the entire board by a combination of independent and investor-appointed directors. Gupta assumed the role of chairman. The shake-up dissolved a number of other shareholder concerns around senior management's involvement with other businesses and transparency issues related to a combined chairman-CEO position.

By this time, NewQuest was running China Hydro's day-to-day business, despite holding a minority stake. The firm then cemented this control with two secondary stake acquisitions made out of its first Asia fund, reaching a 54% holding one year later.

The share price had ticked up to as high as around \$3.50 during this period, but many existing investors weary of the rollercoaster thus far were ready to cash out rather than abide a multi-year PE-style turnaround effort. NewQuest, therefore, was able to take the company private through a \$79 million investment from its second fund, bringing the total investment size to \$153 million.

In private hands

Once China Hydro was private, a new employee stock ownership plan for senior and middle management was rolled out, allowing senior management to invest into the company as a way of strengthening alignment of interests. The leadership changes were reinforced with a focus on introducing talent beyond the energy and infrastructure spheres. This included an emphasis on improving expertise in human resources policy framing, in-house legal capabilities, and offshore finance and corporate-level functions.

Privatization also allowed the firm to achieve its final value enhancement objectives, especially through the reining in of cost overruns. By 2011, general and administrative expenses were growing at 17% per annum and represented 32% of revenue.

Between 2011 and 2014, NewQuest was able

"Doing it incrementally gives you further conviction in your thesis and empowers you to convince your investment committee and LPs that taking on additional risk is warranted"

— Darren Massara

However, the stock failed to stabilize after a weak start, and by the time it fell from its launch price of \$14.80 to as low as \$0.62 in mid-2012, NewQuest had resolved to launch what would prove to be a three-year takeover and value-add process. As few things outside of low rainfall can cripple a hydroelectric business so suddenly and severely, the protracted nature of this corporate recovery was roundly attributed to the incumbent leadership.

"They were initially interacting with us, but over time, it was clear they weren't aligned with us," says Darren Massara, managing partner at NewQuest. "They had very little incentive to make changes and given the company was listed in the US, and domiciled in the Cayman Islands, where shareholders have very few legal rights, they felt they could run it the way they saw fit without being answerable to shareholders."

Going concern

China Hydro was set up in 2006 to acquire and operate small hydroelectric power projects, defused as having a capacity of 50 megawatts or less. Over the course of three years it raised about \$350 million through four rounds of private

When auditors eventually issued the company a going concern qualification, shareholders attributed it to a liquidity shortfall created by the New York-based executives, which they said were paid almost five times the salary of counterparts in similar Chinese companies. By the end of 2012, the company had a working capital deficiency of some \$81 million.

Value-add efforts on the part of NewQuest during this period included proposals to rationalize this bloated cost base and increase revenue without having to expand the plant fleet. The firm was denied a seat on the board and the recommendations went unheeded.

"In hindsight, it appears they were giving us lip service and mismanaging conflicts that existed with other businesses they operated," says Amit Gupta, COO at NewQuest. "For example, one major difference of opinion arose around the level of SG&A expenses. We wanted SG&A [selling, general and administrative expenses] to be closer to that of a 500 MW company — which it was — rather than a 2-gigawatt company."

"As a result of issues like these, we were left with no option but to pursue a proxy contest in a public manner. In the end, we received

to grow revenue by 62% and achieve a 113% increase in EBITDA. During the same period, a liquidity deficit of about \$100 million was turned into a cash surplus, and by 2015, the company was making dividend payments. As of the first half of 2015, it posted revenue of \$45 million, generating net profit of \$12 million. This compares to revenue and profit of \$89 million and \$6 million for 2014 as a whole.

"This is a pretty simple brick-and-mortar business, so you don't have to spend a lot on things like marketing," says Gupta. "As a result, any excessive cost that can be cut without effecting the plant-level operations directly improves cash flows."

More specifically, cost cutting work included the elimination of listing expenses as well as a number of public and investor relations programs in the US. It also encompassed a major staff reduction and the nixing of a large Manhattan office rental in favor of cheaper headquarters in China. The company initially set up shop in Beijing but eventually settled in Shenzhen to realize further economies by improving proximity to an established operational footprint across the country's southeastern provinces.

"One of the expenses at the individual plant-level was that each of the plants had its own maintenance team," Gupta explains. "But the whole idea of aggregating these small power plants – which was the original operating plan – is to create economies of scale and use one maintenance team to manage all the plants in a certain area. We started implementing a lot of these small initiatives and they added up to meaningful numbers."

Value-add plans otherwise focused on a systemic de-leveraging and debt refinancing effort, which resulted in virtually all high-interest loans being extinguished by 2014. Between 2011 and 2014, net debt was down 32%, current liabilities were down 60% and cash holdings gained 525%. From 2012 to 2014, effective interest rates were reduced from 10% to 8% by repaying high-interest loans and replacing

existing loans with lower interests. By mid-2015, the debt load had narrowed to \$35.9 million from \$270.2 million in 2012.

This was achieved in part by taking a more local tact. The heads of NewQuest's provincial financial teams were therefore encouraged to coax support from the smaller lenders in their respective areas through a message about the relative stability of cash flow generating businesses like hydro power plants.



NewQuest Capital Partners' Darren Massara

"Our team was a little resistant at first because they had never done it before, but we engaged at the provincial level, speaking to the higher authorities at banks and explained that hydro was a pretty stable cash flow businesses," Gupta says. "That education program at the senior and branch levels worked. Our success was in large part due to tackling the problem from a different perspective and empowering our local people."

This work coincided with the resolution of legacy issues such as the striking of a settlement with a joint venture partner in a defunct development project. Environment, social and governance (ESG) compliance, meanwhile, was incorporated as a metric in the ongoing personnel evaluations of individual plant managers.

As a result, plant managers were assessed not only according to their ability to achieve efficient electrical output, but also for worker health and safety records. The program was expanded with the engagement of specialist advisory firm Pacific Risk Advisors and ultimately made a meaningful contribution to the company's marketability at the time of exit.

"In the end, the international and domestic Chinese bidders conducted their own ESG due diligence as part of the auction process and no

issues were raised," Massara says. "For a heavy infrastructure business to not have any ESG concerns raised at the time of due diligence was an important milestone to reach given all the issue areas potential buyers must evaluate."

Time to exit

NewQuest exited China Hydro in December 2015 through a sale of a 100% stake to Shenzhen Energy for \$495 million in equity value, post dividend recaps. The private equity firm controlled 93.7% of the company at the time and executed the deal alongside minority position sellers Tsing Capital, Junya Investment, Asia Pacific Energy Investment and various individual players.

For NewQuest's first fund, the investment generated a 3.7x net return over a 4.7-year period, resulting in an IRR of 41%. Fund II achieved a 2.7x net return over a period of 1.4 years, with an IRR of 102%.

Perhaps a more appropriate measure of the value creation, however, would be the improvement realized since NewQuest launched its proxy contest to remove the incumbent leadership. From this mark, the exit achieved a 9.9x return over 3.3 years, representing a 104% IRR and a 753% jump in equity value.

The most extraordinary aspect of the China Hydro story, however, is the notion that NewQuest achieved these improvements as a passive minority investor that became compelled only through extenuating circumstances to lead a prolonged and aggressive take-control process. Achievement of the coup is all the more interesting in light of China Hydro's low level of liquidity as a publicly traded company, with only 10 investors owning roughly 80% of the stock at the time.

Although such multi-transaction buyouts do have their place in the private equity secondaries playbook, the advantages of the approach are not related to value creation per se. Improving the bottom line under these conditions is an uphill climb, but with each small victory, stakeholders grow more confident about the viability of the long-term vision.

"Doing it incrementally may not be ideal because it takes longer and there is a lot more uncertainty, but if you see progress, it gives you further conviction in your thesis and empowers you to convince your investment committee and LPs that taking on additional risk is warranted – particularly given the control you have and the execution and performance you've been able to deliver to date," Massara says. "If you had to buy 100% on day-one with a significant check size, you could lose a lot more if the deal goes wrong." ■

"This is a pretty simple brick-and-mortar business, so you don't have to spend a lot on things like marketing"

– Amit Gupta

The China angle

PE PROFESSIONAL OF THE YEAR From re-listing Focus Media in Shenzhen to closing Fund III at \$2.1 billion, FountainVest Partners has enjoyed a fruitful 12 months. CEO Frank Tang assesses the China market

Q: Liquidity has historically been one of LPs' primary concerns about private equity in China. Is the situation improving?

A: I think the exits situation has definitely improved. We see more trade sales, backdoor listings, IPOs and dividend recaps, so there are all kinds of different ways of returning capital. The China IPO market is slowly opening up and it will probably accelerate going forward. The Hong Kong IPO path is also more proven,

are other issues. But it ended up a win-win: the founder of the shell company got a great outcome, the regulators no longer had to worry about unhappy shareholders in the shell company, and Focus Media got listed.

Q: Subsequent to the reverse merger, there was a spike in privatizations of US-listed Chinese companies as other investors looked to take advantage of similar

opportunities. Are you still interested in these deals?

A: We never looked at Focus Media as a valuation arbitrage play between NASDAQ and China, but others took the cue and have tried to do that. As private equity investors we always have to come back to the fundamentals and decide whether a target is an investable business. Just relying on the possibility of flipping a company is dangerous. It is no different from looking at

pre-IPO investments and saying, 'I don't care what the business is, just that it will go public.' That could end in tears if the business itself is not investable.

Q: There have been two notable exits from Fund II – Focus Media and Key Safety Systems, a US-based business that was sold to a Chinese strategic. How are you capitalizing on the outbound M&A trend?

A: There is clearly a lot of appetite from Chinese strategic investors for good assets, whether domestic or overseas. There are several types of cross-border deals we target. First, joint ventures with overseas partners that want to focus on the China market – IMAX China, which went on to list in Hong Kong last year, is an example of this. Second, outright acquisitions of companies that are relevant to China but domiciled overseas, such as Key Safety Systems. Third, we work with portfolio companies on acquisitions. For example, KHB, our medical diagnostics business based in Shanghai, acquired an Italian in vitro diagnostics company at the end of last year.

We were instrumental in helping them to source and execute the transaction.

Q: What has been the impact of the restrictions on capital outflows?

A: It is good news for US dollar-denominated funds that have the currency to do these deals.

Q: The sector focus for Fund III is consumer, healthcare and industrials. Consumer includes media and sport, and FountainVest recently formed a joint venture with Focus Media to focus on sport. Will this partnership approach become more common?

A: I would expect there to be more of these mutual arrangements going forward as strategic investors find that private equity is a good partner and they can leverage one another's experience, capital and networks. With Focus Media, we are looking at select opportunities to see where we can add value jointly.

Q: Do these efforts replace or complement in-house operational efforts?

A: We are committing more resources to the post-investment side. We leverage existing portfolio companies, use retired CEOs, hire consultants, all of that. But we are also spending more time and effort developing our in-house portfolio management team, and thinking about how we can further build up our operational capabilities. You could say that if you have airbags you don't need safety belts, but we would like to have both. ▀



Steven Tran of Hogan Lovells (left) and FountainVest Partners' Frank Tang

although it does blow hot and cold. In my investment career there have been quite a few Hong Kong listings but at FountainVest it has not been the dominant way to exit so far as many of our exits were through onshore listings and trade sales as well.

Q: Focus Media was originally intended to be a Hong Kong IPO but it ended up being an onshore reverse merger. Why the change in plan?

A: Towards the end of 2014 and the beginning of 2015 the China market became more welcoming to well-known Chinese companies that were listed overseas and wanted to come back. That is not the situation right now, but during 2015 the regulators were open to it, so we met with them and decided to take that path. It was about a one-year process, from meeting the regulator to completing the reverse merger in December 2015. One of the difficulties was finding a suitable company to reverse into – there is always a reason why these companies are willing to be sold, maybe their core business has hit a bump or there

“We always have to come back to the fundamentals and decide whether a target is an investable business. Just relying on the possibility of flipping a company is dangerous”

Tang dynasty

AVCJ SPECIAL ACHIEVEMENT K.Y. Tang was among the pioneers of leveraged buyouts in Asia while at UBS Capital Asia. He subsequently spun out to form Affinity Equity Partners, where the success continues

AFFINITY EQUITY PARTNERS HAS BEEN

honored 12 times at the AVCJ Private Equity & Venture Capital Awards, from buyout of the year for Korean electronics retailer Himart in 2005 through to large cap exit of the year in 2016 for Loen Entertainment, another Korean company. In both of those years, the contribution of the firm's founding chairman and managing partner was also acknowledged.

K.Y. Tang was named private equity professional of the year in 2005 and returned to the stage 11 years later to collect the AVCJ Special Achievement Award, which recognizes the role played by a particular individual, over a long period of time, in facilitating the growth of the industry in Asia. Speaking in 2016, Tang recalled his acceptance speech of 2005, in which he identified four characteristics that are integral to success in private equity. He believes they are

relevant today as they were back then.

"One, be hungry. Two, be passionate. Three, be insightful – you really have to be insightful as an investor in today's environment," Tang told the audience. "Four, don't ever forget the fundamentals. And what are those fundamentals in private equity? One, honor all your commitments and stick to your tasks diligently. Two, treat people fairly. Three, when you do your business, think about it in the long term. Four, when you do deals, act prudently and never take excessive risk."

Breakthrough buyouts

Having enjoyed success as a banker with Chase Manhattan, Banque Indosuez, W.I. Carr and Union Bank of Switzerland, Tang turned his attention to private equity in 1999, becoming chairman of UBS Capital Asia. The firm completed a number of notable deals, particularly amidst the restructuring efforts in Korea that followed the Asian financial crisis.

In 1999 alone, Affinity acquired MK Electron, the first buyout of a Korean non-financial institution by an international financial sponsor, and Mando Climate Control, the first leveraged buyout in the country by a financial sponsor. Before the year was out, the private equity firm had secured a second asset from bankrupt Mando Corporation, taking control of the conglomerate's auto parts business in conjunction with J.P. Morgan Partners Asia. In 2004, the team spun out to form Affinity.

The firm currently has more than \$8 billion under management and has completed transactions in nine countries worth a collective \$13 billion. In addition to Himart and Loen, Affinity has outperformed in Korea with Oriental Brewery – a co-investment with KKR that remains Asia's largest-ever PE trade – and got in and out of China's Beijing Leader & Harvest Electric Technologies with Unitas Capital. Recent successes in Australia and New Zealand include protein plays Primo Smallgoods and Tegel Group.

Food for thought

Two fundraises, more than two dozen investments and close to 20 exits since winning his PE professional of the year prize, Tang had further observations to add to those initial remarks. He noted that the industry is fortunate

to operate under a user-friendly business model: funding is secure for 10 years, rising to 12 years with extensions; and fees during the investment period are flat as they are based on committed rather than invested capital, enabling GPs to manage businesses in a stable manner with one eye on long-term development.

"We should be very considerate of how lucky



AVCJ's Allen Lee (left) with K.Y. Tang of Affinity Equity Partners

we are. Because our funding is long term, during situations like the global financial crisis, when there was a severe economic downturn, we had enough time to work through problems and turn around investments," Tang said. "If anything, what we have seen is that private equity has done an excellent job after 2009 of turning around some non-performing investments and not only recover capital but made good money."

With this business model comes a fiduciary responsibility to the firm's backers. Tang recalled a conversation with an LP who once worked as a GP. In that capacity, the LP's former managing partner offered the following treatise: take care of your investors, take care of your investments, and finally, take care of your staff and of yourself. Preserving that alignment between LP and GP is essential to keeping the model sustainable.

At the same time, this sustainability should also apply to private equity firms' internal operations, Tang added. He called on the longer-standing GPs in the region to distribute fund economics widely within teams in order to ensure successful succession planning. And these principles apply equally well to the companies private equity firms back. "Because we are given a long time horizon it is important that we build long term sustainable businesses in our portfolios," he said. ▀

AFFINITY'S AVCJ AWARDS WINS

2016

- Exit of the Year – Large Cap (Loen Entertainment)
- AVCJ Special Achievement (K.Y. Tang)

2014

- Exit of the Year – Large Cap (Oriental Brewery, with KKR)
- Operational Value Add (Oriental Brewery, with KKR)
- Firm of the Year

2011

- Trade Sale of the Year (Beijing Leader & Harvest Electric Technology, with Unitas Capital)

2009

- Buyout of the Year (Oriental Brewery, with KKR)

2008

- Exit of the Year (Himart)
- Firm of the Year

2007

- Fundraising of the Year (Affinity Asia Pacific Fund III)

2005

- Buyout of the Year (Himart)
- Private Equity Professional of the Year (K.Y. Tang)

2002 – as UBS Capital

- Buyout of the Year (Haitai Confectionary, with CVC Capital Partners & J.P. Morgan Partners Asia)
- Firm of the Year

AVCJ Private Equity & Venture Capital Awards: Past winners

2015

Fundraising of the Year - Venture Capital:

Banyan Partners Fund II (Banyan Capital)

Fundraising of the Year - Mid Cap:

Ascendent Capital Partners II (Ascendent Capital Partners)

Fundraising of the Year - Large Cap:

Baring Asia Private Equity Fund VI (Baring Private Equity Asia)

Deal of the Year - Early Stage Technology:

Ninebot (Sequoia Capital/Shunwei Capital Partners/WestSummit Capital/Xiaomi)

Deal of the Year - Late Stage Technology:

Didi Kuaidi (Alibaba Group/Capital International/China Investment Corp/Coatue Management/Ping An Ventures/Temasek Holdings/Tencent Holdings)

Deal of the Year - Mid Cap:

SBI Life Living Corp (Advantage Partners)

Deal of the Year - Large Cap:

Halle Visteon Climate Control Corp (Hahn & Company)

Exit of the Year - IPO:

Hong Kong Broadband (CVC Capital Partners/AlInvest Partners/GIC Private)

Exit of the Year - Mid Cap:

Bushu Pharmaceuticals (Tokio Marine Capital)

Exit of the Year - Large Cap:

Spotless Group (Pacific Equity Partners)

VC Professional of the Year:

Neil Shen (Sequoia Capital)

PE Professional of the Year:

Jean Eric Salata (Baring Private Equity Asia)

Operational Value Add:

ECO Industrial Environmental Engineering (Navis Capital Partners)

Firm of the Year:

Bain Capital
AVCJ Special Achievement: Ta-Lin Hsu (H&Q Asia Pacific)

2014

Fundraising of the Year - Venture Capital:

Qiming Venture Partners IV (Qiming Venture Partners)

Fundraising of the Year - Mid Cap:

Quadrant Private Equity No.4 (Quadrant Private Equity)

Fundraising of the Year - Large Cap:

CVC

Capital Partners Asia Pacific IV (CVC Capital Partners)

Deal of the Year - Venture Capital:

Flipkart (Tiger Global/Naspers/GIC Private/Morgan Stanley Investment Management/DST Global/Accel Partners/Iconiq Capital/Sofina)

Deal of the Year - Mid Cap:

IMAX China (FountainVest Partners/CMC Capital Partners)

Deal of the Year - Large Cap:

Nanfu Battery (CDH Investments)

Exit of the Year - IPO:

Alibaba Group (Silver Lake/China Investment Corporation/Yunfeng Capital/CITIC Capital/Boyu Capital/Nepoch Capital/Asia Alternatives/Pavilion Capital/Siguler Guff)

Exit of the Year - Mid Cap:

United Cinemas (Advantage Partners)

Exit of the Year - Large Cap:

Oriental Brewery (Affinity Equity Partners/KKR)

VC Professional of the Year:

Jixun Foo (GGV Capital)

PE Professional of the Year:

David Liu & Julian J. Wolhardt (KKR)

Operational Value Add:

Oriental Brewery (Affinity Equity Partners/KKR)

Firm of the Year:

Affinity Equity Partners

AVCJ Special Achievement:

Victor Chu (First Eastern Investment Group)

2013

Fundraising of the Year:

KKR Asian Fund II (KKR)

Private Equity Exit of the Year:

Matahari Department Store (CVC Capital Partners)

Venture Capital Deal of the Year:

Tujia (CDH Investments/Qiming Venture Partners/GGV Capital/Lightspeed China/Ctrip/HomeAway)

Private Equity Deal of the Year:

Panasonic Healthcare (KKR)

Venture Capital Professional of the Year:

Richard Liu (Morningside Technologies)

Private Equity Professional of the Year:

Michael B. Kim (MBK Partners)

Operational Value-Add:

Yonghui Superstores (Headland Capital Partners)

Firm of the Year:

KKR

AVCJ Special Achievement: Wu Shangzhi (CDH Investments)

2012

Fundraising of the Year:

PAG Asia I (PAG)

Private Equity Exit of the Year:

King's Safetywear (Navis Capital Partners)

Venture Capital Deal of the Year:

Xiaomi (IDG Capital Partners/Morningside Ventures / Qiming Venture Partners/Qualcomm Ventures/ Beijing ShunWei Venture Capital/DST Advisors/ Temasek Holdings)

Private Equity Deal of the Year:

Tianhe Chemicals Group (Morgan Stanley Private Equity Asia)

Venture Capital Professional of the Year:

Sanjeev Aggarwal (Helion Venture Partners)

Private Equity Professional of the Year:

Roy Kuan (CVC Capital Partners)

Firm of the Year:

Bain Capital

AVCJ Special Achievement:

Lewis Rutherford (Inter-Asia Management)

2011

Deal of the Year: Hyva Holdings (Unitas Capital)

Firm of the Year:

Archer Capital

Fundraising of the Year:

Baring Asia Private Equity Fund V (Baring Private Equity Asia)

IPO of the Year:

Yonghui Superstores (Headland Capital Partners)

Trade Sale of the Year:

Beijing Leader & Harvest Technology (Affinity Equity Partners/ Unitas Capital)

Private Equity Professional of the Year:

Peter Wiggs (Archer Capital)

Venture Capital Professional of the Year:

Sandeep Singhal (Nexus India)

Lifetime Achievement Award:

Philip Bilden (HarbourVest Partners)

2010

Venture Capital Professional of the Year: Joe Zhou (KPCB)

Venture Capital Firm of the Year: Sequoia Capital India

Deal of the Year: Sanyo Logistics

Trade Sale of the Year: Parkway Holdings

IPO of the Year: China Pacific Insurance

Fundraising of the Year: CDH Fund IV (CDH Investments)

Private Equity Professional of the Year: Weijian Shan (PAG)

Private Equity Firm of the Year: TPG Capital

Lifetime Achievement award: David Bonderman, TPG Capital

2009

Firm of the Year: India Value fund Advisors

Buyout of the Year: Oriental Brewery (Affinity Equity Partners/KKR)

Private Equity Professional of the Year: Jean Eric Salata (Baring Private Equity Asia)

Venture Capital Professional of the Year: Andrew Yan (Softbank Asia Infrastructure Fund)

Exit of the Year: Shenzhen Development Bank (TPG Capital)

Entrepreneur of the Year: Gautam Adani (Adani Group)

Fundraising of the Year: MBK Partners II (MBK Partners)

Lifetime Achievement Award: George Raffini

Publisher's Award: Daniel Schwartz

2008

Firm of the Year: Affinity Equity Partners

Buyout of the year: Magnum Corp (CVC Asia Pacific)

Private Equity Professional of the Year: John Zhao (Hony Capital)

Venture Capital Professional of the Year: Sonny Wu (GSR Ventures)

Exit of the Year: Himart (Affinity Equity Partners)

Entrepreneur of the Year: Tulsi Tanti (Suzlon Energy)

Fundraising of the Year: Hony Capital Fund III (Hony Capital)

Lifetime Achievement Award: William Ferris, Castle Harlan Australia Mezzanine Partners

2007

Firm of the Year: Advantage Partners

Buyout of the Year: DCA Group (CVC Asia Pacific)

Professional of the Year: Joe Bae (KKR)

Exit of the Year: Belle International Holdings (CDH Investments/Morgan Stanley Private Equity Asia)

Entrepreneur of the Year: Ben Fan (Neo-Neon International)

Fundraising of the Year: Affinity Equity Partners

2006

Entrepreneur of the Year: Jason Jiang (Focus Media)

Buyout of the Year: Brambles Industries (KKR)

Exit of the Year: Suntech Power (Actis/ Dragontach Ventures/Goldman Sachs/Natixis Private Equity)

Private Equity Firm of the Year: Pacific Equity Partners

Private Equity Professional of the Year: Dan Carroll (TPG Capital)

2005

Entrepreneur of the Year: Jack Ma (Alibaba Group)

Buyout of the Year: Himart (Affinity Equity Partners)

Exit of the Year: Korea First Bank (Newbridge Capital)

Private Equity Firm of the Year: Newbridge Capital

Private Equity Professional of the Year: K.Y. Tang (Affinity Equity Partners)

2004

Entrepreneur of the Year: Neil Shen (Ctrip.com)

Buyout of the Year: Hanaro Telecom (Newbridge Capital)

Exit of the Year: Pacific Brands (CVC Asia Pacific/Catalyst Investment Partners)

Private Equity Firm of the Year: JP Morgan Partners Asia

Private Equity Professional of the Year: Maarten Ruijs (CVC Asia Pacific)

2003

Entrepreneur of the Year: Yibo Shao (Eachnet)

Buyout of the Year: Yellow Pages Singapore (CVC Asia Pacific/JP Morgan Partners Asia)

Exit of the Year: Vantec Corporation (3i/PPM Ventures)

Private Equity Firm of the Year: CVC Asia Pacific

Private Equity Professional of the Year: T.J. Huang (AsiaVest Partners, TCW/YFY)

2002

Entrepreneur of the Year: Richard Chang (SMIC)

Buyout of the Year: Haitai Confectionery (CVC Asia Pacific/JP Morgan Partners Asia/UBS Capital)

Exit of the Year: Good Morning Securities (H&Q Asia Pacific/Lombard/GIC Private)

Private Equity Firm of the Year: UBS Capital

Private Equity Professional of the Year: Chan Sun (Walburg Pincus)

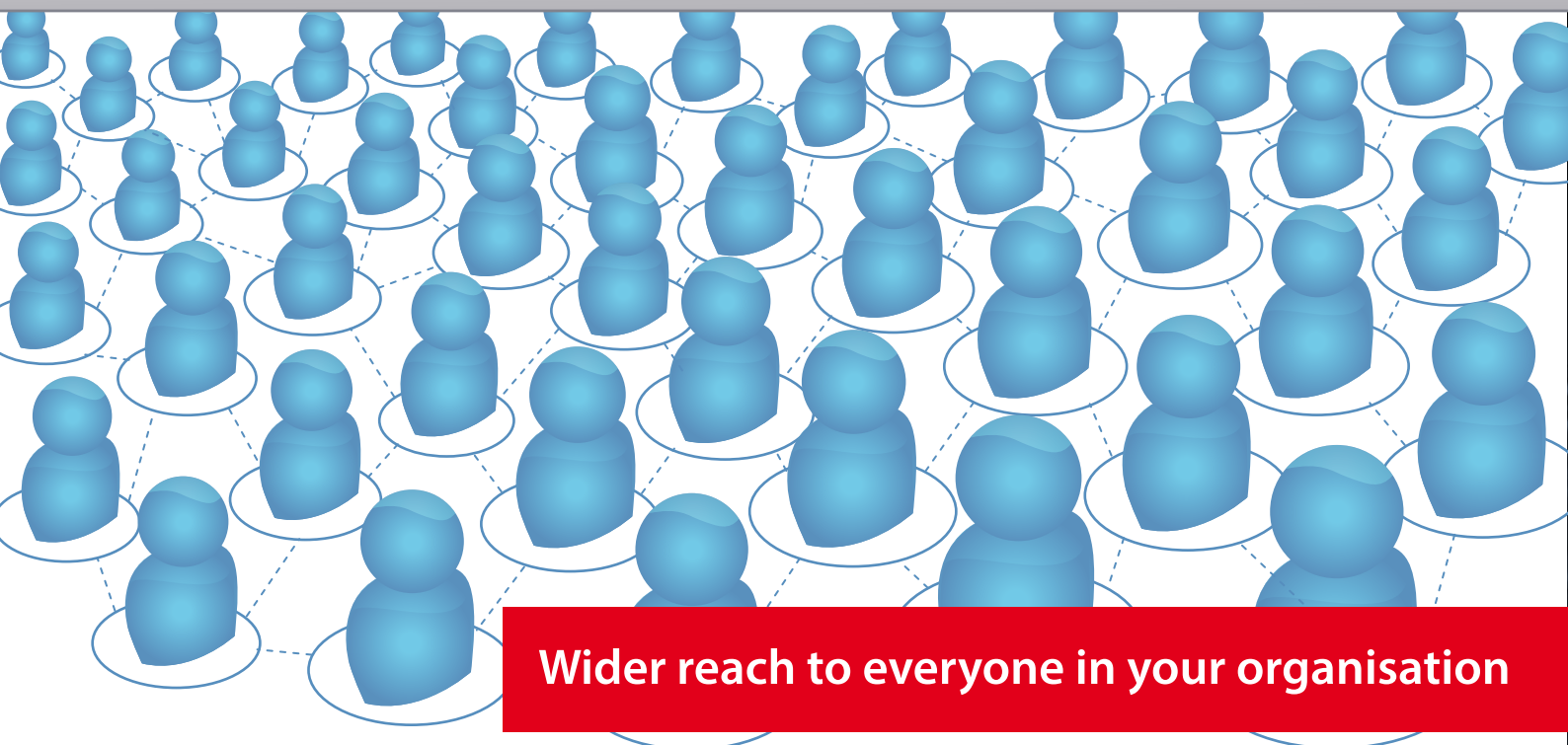
Special Achievement Award: Inter-Asia Venture Management

2001

Entrepreneur of the Year: Narayana Murthy (Infosys Technologies)

Private Equity Firm of the Year: Telecom Venture Group

Private Equity Professional of the Year: Lip-Bu Tan (Walden International)



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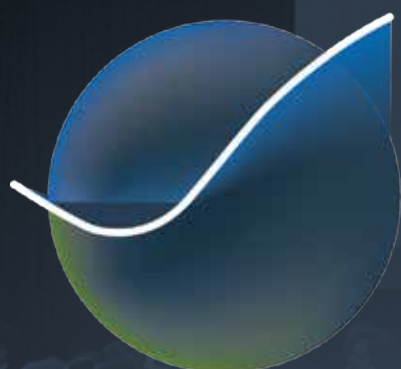
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