Asia Private Equity Forum 2013
Hong Kong Venture Capital and Private Equity Association

Media Coverage
18-29 January 2013

Summary

- **AsianInvestor** reported that while the backdrop for secondary PE deals is ripe in Asia, and particularly China, given the IPO backlog, the market still needs time to develop, agree specialists. An IPO bottleneck in Asia has congested the favoured exit route for private equity general partners (GPs), creating what would appear to be an opportunistic environment for secondary specialists.
    - The article quoted Neal Costello, head of the secondary investments programme in Asia for AlpInvest Partners as saying, “you want to have $1-2 billion per year in Asia.” He spoke at the recent Asia Private Equity Forum in Hong Kong and said that “we see that growing exponentially.”

- **Investment & Pensions Asia** reported that China’s public equity markets may persist with an anaemia that has endured for three years. However, private equity takes a longer, more sanguine approach.
    - The article mentioned that Van Den Berg, who was speaking on the China investors’ panel at the Asia Private Equity Forum in Hong Kong, felt the operational value-added in terms of leadership that is provided in active engagement and change management has largely come from the bigger private equity firms.

- **Private Equity International** reported that despite the bleak performance indicators of China’s private equity industry in 2012, PricewaterhouseCoopers’ predicts that 2013 could be a record year for the industry.
    - CITIC Capital chief executive Yichen Zhang believes that LPs will start to become more demanding for returns as exits become scarce, and may even pull back on their capital commitments. He said at the HKVCA Asia Private Equity Forum that “the worst is yet to come.”

- **AsianInvestor** reported that a bottleneck in IPOs has constrained a vital route for private equity exits, with secondary specialists lining up to help. But secondary deals still have a mixed reputation in Asia.
    - Darren Massara, managing partner of NewQuest Capital Partners, who spoke during a panel on private equity secondaries at the Asia Private Equity Forum in Hong Kong, said that “there is a significant overhang of un-exited deals out there”, particularly in India and Greater China.

- **Private Equity International** reported that In China, some see evidence of a gradual shift toward control investments due to a generational change and slowing GDP growth, as discussed at the HKVCA Forum in Hong Kong.
    - Panel speaker Terry Hu, managing director at FountainVest Partners, which recently closed a $1.35 billion fund, said one such opportunity is driven by a generational change among business owners who are getting closer to retirement age.

- **Private Equity International** ran an article and shared some discussion highlights from the recent HKVCA Asia Private Equity Forum in Hong Kong, including speakers such as Northstar Equity Partners Patrick Walujo, Sebastiaan van der Berg, managing director at HarbourVest Partners, Derek Sulger, partner at Lunar Capital Management, Joseph Bae, managing partner of KKR Asia, Chul Joo Lee, partner at Affinity Equity Partners, Yichen Zhang, chief executive of CITIC Capital, and Mintoo Bhandari, senior partner at Apollo Global Management.

- **Thai News Service** reported that foreign private-equity investors remain cautious over Thailand's political stability and say the increased minimum daily wage will lead to consolidation of businesses.
    - The article said that investors expressed concern that political stability in the Kingdom could create frustrations over the next five years at the Asia Private Equity Forum in Hong Kong. However, they see great potential in the Thai market in such sectors as food processing and manufacturing, while selected businesses such as media also remain attractive.

- **Private Equity Manager** reported that as GPs and LPs refocus time and resources on Southeast Asia, finding management talent is more of a concern than high valuations, according to a Southeast Asia panel at the 2013 HKVCA Forum in Hong Kong.
    - Datuk Jared Lim Chih Li, managing partner of Asiasons Capital, said on a panel of Southeast Asia-focused GPs at the HKVCA Asia Private Equity Forum that “the next ten years will be a Southeast Asia play.” He added that there will be “serious opportunities” springing from the consumer, resources and infrastructure sectors in Southeast Asia.

Full Article

Secondary PE firms taking stock in Asia
AsianInvestor
By Yvonne Chan
28 January 2013

While the backdrop for secondary PE deals is ripe in Asia, and particularly China, given the IPO backlog, the market still needs time to develop, agree specialists.

An IPO bottleneck in Asia has congested the favoured exit route for private equity general partners (GPs), creating what would appear to be an opportunistic environment for secondary specialists.

Adding to the promising outlook is the fact that most of the major secondary players from the West have established outposts in Asia.

While a few, such as LGT Capital Partners and HarbourVest, have long had a presence in the region, others have set up regional offices over the past couple of years. They include Lexington Partners, Pantheon and Greenpark Capital.

“We are seeing secondaries set up, and we see a lot of activity being pursued,” says Bob Partridge, Ernst & Young transaction advisory services leader for Greater China.

“When you’ve got a slowdown in traditional exits – with IPOs being predominant across this market – GPs trying to raise funds and LPs [limited partners] not wanting to give money because realised returns have been low, it’s a prime breeding ground for a secondaries market,” adds Partridge.

However, industry practitioners readily acknowledge that the Asian secondaries market is still in a development stage that is about five to six years behind that of the US.

“The activity we’ve seen to date has principally been small to lower mid-sized secondary deals”, with deal values of less than $30 million, says Partridge.

Global secondary players are more accustomed to deals at least 10 times larger in the US and Europe.

Secondary PE deal flow worldwide averages $20-$25 billion annually, according to industry estimates, although there are no accurate figures on Asia's share.

"You want to have $1-2 billion per year in Asia," Neal Costello, head of the secondary investments programme in Asia for AlpInvest Partners, told delegates at the recent **Asia Private Equity Forum** in Hong Kong. "We see that growing exponentially."

One firm that plans to increase its deal activity in Asia is Partners Group, a global private markets investment management firm which closed its secondary fund at $2 billion in December.

The firm has "sourced several billion dollars of Asian deal flow" over the past year, says Adam Howarth, head of secondaries for Asia at Partners Group, which manages about $38 billion in assets globally.

"The most active sellers, in terms of volume, have been public pensions and financial institutions, primarily in the US and Europe," says Howarth, with high-volume deal flow concentrated on large-cap, pan-Asian funds.

In terms of annual turnover, however, "the secondary market in Asia still trails the more developed markets of the US and Western Europe", notes Howarth.

Partners Group expects Asia to catch up in the next few years, and as such is in the process of adding to its regional team.

"In Asia, the most attractive market to us is China on a risk-return basis," says Howarth. The firm is seeking opportunities in the consumer and healthcare sectors.

China is home to what might be Asia's largest backlog of IPOs, with nearly 900 businesses pending regulatory approval as of December.

However, Partridge at E&Y recalls a cautionary tale of a failed secondary deal on the mainland of about $80 million in size. A private equity firm holding a stake of less than 20% in a Chinese company was unable to convince the founder, who served as chief executive and general manager, to support a sale of the stake to a prospective secondary buyer.

“The [PE firm] had legal rights to do what they wanted, but the founder became difficult in dealing with the secondary fund. The PE fund was ending its lifecycle [in 2012] so they were in desperate need to realise that investment,” says Partridge.

He adds: “Obviously the secondary fund saw that all they were going to have was problems [in the future].”

Citigate Dewe Rogerson

PE investors still gung-ho about China
Investment & Pensions Asia
By Simon Osborne
23 January 2013

China's public equity markets may persist with an anaemia that has endured for three years. However, private equity takes a longer, more sanguine approach. When Chinese stock markets swooned, general partners were in no hurry to reflect lower business valuations in their portfolio – the relaxed message being that it was a long term transaction, things would come round and there was no need to panic with marked-to-market valuations.

Well, you can accept that if you want to. It seems that private equity investors today are pretty satisfied with what they are getting.

"Venture capital, opportunity deals and buyouts are all being carried out now in China," says Sebastiaan Van Den Berg, managing director of HarborVest Partners (Asia). "In Chinese growth deals private equity is now far more involved with company operations compared to a more passive stance in the past."

Van Den Berg felt the operational value-added in terms of leadership that is provided in active engagement and change management has largely come from the bigger private equity firms. He was speaking on the China investors' panel at the **Asia Private Equity Forum** in Hong Kong.

Investors alighted upon China because of its growth story, and are gratified that, even though the limited partner base has not become entrenched locally, the sector has depth.

"We set up because we saw China and US as the main engines of world growth," says Denis Tse Asian Ambassador of the Institutional Limited Partners Association. "China is the only stand alone market that can be approached systematically. Other Asian markets have to be handled technically depending on their position in the economic cycle."

He added Chinese private equity is becoming more like western private equity. However, "you have to become more diligent in your selection of Chinese managers, to make sure your returns are satisfactory compared to what you can get in the USA."

With the wider breadth of strategy types on the counter for Chinese private equity, it has thrown into sharp relief the need for specific skills, and this is a feature that is becoming more apparent in China.

"Going forward the market will continue to mature because of increasing investment diversity," says Lawrence Wong, vice president at Auda Asia. "There is an increase in both sector and strategy diversification and that is a positive development, as in the more general funds, Limited Partners don't know how funds would be allocated."

Is there a slowdown at portfolio level in Chinese companies, reflecting economic conditions elsewhere in the world?

"The slowdown has changed things for General Partners," says Alexa Zhang, managing director, Asia Pacific, Wilshire Associates. "Just pricing a deal at a discount to IPO is not enough. It is nevertheless healthy for the market and private equity firms can withstand the pain."

"It has slowed down a bit," adds Lawrence Wong. "Some companies have missed targets, but profits haven't fallen. Some exporters and manufacturers have been affected by the global recession but local consumer oriented firms have expanded fast."

PwC predicts PE upturn in China

Private Equity International

22 January 2013

Despite the bleak performance indicators of China's private equity industry in 2012, PricewaterhouseCoopers' predicts that 2013 could be a record year for the industry.

Private equity in China may see a record number of new investments and perhaps even start toward a record number of exits in 2013, despite the substantial drop in deals, fundraising and exits in 2012. The low numbers are exactly where the pressure is building, according to David Brown, PricewaterhouseCoopers private equity Greater China leader. "There is a lot of pent-up demand in the system," Brown told Private Equity International. Fund managers, both those raising funds denominated in US dollars and RMB, raised $12.1 billion in 2012 and $26.5 billion in 2011, according to PEI's data division. GPs are now "under pressure to use that money", Brown said. That is actually good news for private equity firms wanting to close new deals, he added, because "the demand for capital in China is still there and real". Exits may also spike, Brown said. There are more than 7,550 unexited investments in China, according to a China First Capital report. Brown expects to see more trade sales than secondaries, but both should increase. If the public markets recover, China might have a record year of private equity-backed IPO exits, Brown says, but that is less certain. "I'm just not sure it will happen fast enough for us to see a record 2013," he said. One of the main reasons for the slowdown in 2012 was that private equity firms have been waiting for lowered valuations, he said. Firms believed it was better to wait until the year-end results of 2012 came in. Then entrepreneurs could see that profits were not as high as expected, and private equity could point to that to negotiate lower valuations. In the report, Brown called this a "time lag factor". "It's not that deals aren't there, it's that people are slowing down," Brown explained. He expects that many deals in the pipeline now will start to come through in 2013. However, private equity firms are not confident that 2013 will be a good year all around. Especially on the RMB side, CITIC Capital chief executive Yichen Zhang believes that LPs will start to become more demanding for returns as exits become scarce, and may even pull back on their capital commitments. "The worst is yet to come," Zhang said last week at the HKVCA **Asia Private Equity Forum**.

Opportunity spied in overhang of un-exited PE deals

AsianInvestor

By Yvonne Chan

18 January 2013

A bottleneck in IPOs has constrained a vital route for private equity exits, with secondary specialists lining up to help. But secondary deals still have a mixed reputation in Asia.

A paucity of IPOs in Asia is making it difficult for private equity investors to exit portfolio companies – a dilemma that secondary specialists say they can help to remedy.

“There is a significant overhang of un-exited deals out there”, particularly in India and Greater China, said Darren Massara, managing partner of NewQuest Capital Partners, during a panel on private equity secondaries at the **Asia Private Equity Forum** in Hong Kong this week.

The Asian market for secondaries – whereby portfolio companies are traded between private equity firms – is still immature, say panellists, but is in line with the development of the region’s overall private equity market.

“It's very similar to the US market five to six years ago, where it started to be accepted,” says Neal Costello, principal of Alpinvest.

In the first half of 2012, $13 billion in private equity interests were sold on the secondary market globally, according to data from Cogent Partners.

In Asia, secondary activity is being driven by the GPs themselves, who sell their stakes in portfolio companies to other GPs as a result of the bottleneck in the IPO market and also problems in finding trade sale buyers.

“A lot of GPs now are having problems with exits,” notes Chin Chin Teoh, head of Asia at Greenpark Capital. Some are under pressure to exit investments in order to raise new funds. “The traditional exit routes are congested,” she adds.

At the moment, secondary deals have something of a mixed reputation in Asia, panellists acknowledged. Some private equity fund managers, or general partners

(GPs), see it as a lack of confidence by the fund investor, or limited partner (LP), which is seeking to exit its investment.

“The GPs in Asia have less experience in dealing with the secondaries process,” says Teoh. “When we do a deal in Asia, there is some missionary work. You need to educate the GP somewhat in how this works. [That way] they don’t look bad.”

However, LPs might seek an exit to rebalance their portfolio, which is a customary process. “What we're seeing is quite interesting," says Alpinvest’s Costello.

"We're seeing a lot of Asian sellers of US and European assets, and US and European sellers of Asian assets. I have not come across any Asian sellers selling Asian assets.”

He adds that there is a geographic element to the current trend in sales, with US and European firms looking for buyers outside of their regions.

While Asia’s public markets are showing signs of a rebound – signalling a possible near-term resuscitation of IPO activity – panellists say there is still a place for secondaries in the private equity sphere.

“It’s more got to do with the maturing of the market and the fact that secondaries are now being seen as an efficient tool to use to exit, find liquidity and actively manage your portfolio,” says Costello.

Citigate Dewe Rogerson

China control deals expected to grow
Private Equity International
18 January 2013

In China, some see evidence of a gradual shift toward control investments due to a generational change and slowing GDP growth, delegates heard at the HKVCA Forum in Hong Kong.

Investors in China should expect control deals to become more common over the next few years, attendees heard at the Hong Kong Venture Capital Association **Asia Private Equity Forum** this week. There are many reasons for the shift, panel speakers said. Terry Hu, managing director at FountainVest Partners, which recently closed a $1.35 billion fund, believes one such opportunity is driven by a generational change among business owners who are getting closer to retirement age. If the children are not interested in running the family business, private equity can be an attractive option succession option, he said. In addition, the slowing growth of China has brought the operational weaknesses of Chinese companies to the forefront. Although private equity firms can never run the business better than its founders, “we can usually see what’s wrong”, said Derek Sulger, partner at Lunar Capital. In order to successfully turn around struggling companies, a private equity firm needs a control stake, and needs to be working on that company full-time, delegates heard. Sulger added that trying to turn a company around without holding a controlling stake “is like fixing the wings on a plane while it’s still flying.” However, Conrad Tsang, managing director at Baring Private Equity Asia, was sceptical of control deals in China that leave the founding entrepreneur with a significant minority stake because often the founding entrepreneur/family will have a disproportionate sway on the business. “In many situations, you think you have control but you actually don’t,” he said. Greater China had a 42 percent drop in annual deal value to $9.9 billion from $17 billion in 2011, according to Mergermarket data, but a Hong Kong-based GP that recently raised a sizable fund for China told Private Equity International that he is not worried about finding investments for his fund. There may be fewer transactions on the one hand, but he expects deal size to increase. (Currently the average private equity deal size in China is $190 million, according to Mergermarket). Despite slowing GDP growth, his fund's investment strategy will remain focused on the themes of the rising middle class, environmentally friendly investment and urbanisation.

Five Minutes At… the HKVCA Forum
Private Equity International
18 January 2013

PEI shares some highlights from the recent HKVCA **Asia Private Equity Forum** in Hong Kong.

<em style="font-weight: bold;]“No matter how much you want to pay, those people just aren’t available. So we tend to shy away from industries where expertise is not available.” Co-founder and managing partner of Northstar Equity Partners Patrick Walujo says the most difficult thing about investing in Southeast Asia is finding management talent to put into portfolio companies. <em style="font-weight: bold;]“For too long, investors have had the impression that no matter where you throw your dollar [in China], you will get three times back – and that hasn’t played out.” Sebastiaan van der Berg, managing director at HarbourVest Partners, discussing the impact of China’s slowdown. “In China, 75 percent of exit returns are from IPOs. Worldwide, IPOs make up 15 percent of returns. So it’s reasonable to assume that China will converge to a global norm eventually.” Derek Sulger, partner at Lunar Capital Management, talking about the changes in China’s stock market. “The real estate business in Asia is going to dwarf the private equity industry in the long term. The underdeveloped debt markets will dwarf the size of Asia private equity in the long term.” Joseph Bae, managing partner of KKR Asia “The deals I was involved with [in Korea], I can write a 12 chapter book about. The kind of things we had to do to build a relationship, how many times deals actually died on us and what we needed to do to revive them, how much things change from the time we start a discussion of the deal to actually end up closing the deal. It takes a lot of patience. In a place like Korea, it’s not an easy thing for a newcomer to come and be active, a big player on day one. These kind of relationships take time to build.” Chul Joo Lee, partner at Affinity Equity Partners “I’m not that optimistic about US listings for Chinese companies [opening again], because the regulatory tussle between China and the SEC will be difficult to resolve, and at the end of the day the Chinese [regulators] really don’t care.” Yichen Zhang, chief executive of CITIC Capital, explains his views on the US market for Chinese companies, saying that Chinese regulators actually prefer Hong Kong as a listing site for Chinese companies. “Success in India is in spite of the government, unlike in China.” Mintoo Bhandari, senior partner at Apollo Global Management, talks about the on-going tension between India’s government and its private equity industry.

Thailand: Stability, consolidations concerns for investors
Thai News Service
18 January 2013

Section: Business News - Foreign private-equity investors remain cautious over Thailand's political stability and say the increased minimum daily wage will lead to consolidation of businesses, The Nation reports.

At the **Asia Private Equity Forum** in Hong Kong yesterday, investors expressed concern that political stability in the Kingdom could create frustrations over the next five years. However, they see great potential in the Thai market in such sectors as food processing and manufacturing, while selected businesses such as media also remain attractive.

Lew Oon Yew, the managing partner and co-founder of Proventeus Capital, said the increase in the minimum wage to Bt300 per day would lead to consolidations and was favourable to the private-equity business.

However, Lew said that while the higher minimum appeared to be putting more money into the pockets of workers, there were consequences to be faced.

"Small businesses are not likely to be able to survive, because the whole business model of small companies hinges on extremely low costs. By doing this you are essentially driving small businesses out."

The Asean region has seen a resurgence of business in the private-equity segment since the 1997 financial crisis. Jared Lim Chih Li, the managing director of Asiasons Capital, sees the region's gross domestic product growing by 5-6 per cent annually over the next five to 10 years with its strengthening domestic demand and large, young workforce.

Meanwhile, to relieve the impact from the higher minimum wage, the Commerce Ministry has launched a plan to help small and medium-sized enterprises trade and invest more in Asean countries. After chaired the nine decades anniversary of the Business Development Department, ??

Commerce Minister Boonsong Teriyapirom said the Asean Economic Community would be a key factor strengthening SMEs.

He added that Thai enterprises needed to adjust to rising labour costs by trading with and investing in other Asean markets.

The Ministry of Industry said yesterday that in at least 62 provinces, no business had yet closed solely because of the new Bt300 minimum wage.

Witoon Simachokedee, permanent secretary of the ministry, said it would take about three months for any such impact to be seen.

The rate of factory closures is normal, he said.

Firms justify SE Asia valuations
Private Equity Manager
17 January 2013

As GPs and LPs refocus time and resources on Southeast Asia, finding management talent is more of a concern than high valuations, according to a Southeast Asia panel at the 2013 HKVCA Forum in Hong Kong.

“The next ten years will be a Southeast Asia play,” Datuk Jared Lim Chih Li, managing partner of Asiasons Capital, said on a panel of Southeast Asia-focused GPs at the HKVCA **Asia Private Equity Forum**. He said that there will be “serious opportunities” springing from the consumer, resources and infrastructure sectors in Southeast Asia. Due to its popularity, valuations in the region, in particular Indonesia, remain expensive. Industry sources have previously said firms have paid up to 20x EBITDA for Indonesian businesses. That's an extreme example, but panelists agreed that higher valuations generally are understandable. Patrick Walujo, co-founder and managing partner of Northstar Equity Partners said, “the consumer sector is so expensive because the growth is there.” Li agreed saying, “the growth is there, the market is there.” He explained Asiasons owns casual restaurant chain TGI Fridays, which recently opened its first location in Jakarta. “The sales that we saw in the first two weekends was the largest amount for any TGI Fridays in Southeast Asia.” Valuations are therefore not GPs’ biggest concern. Li continued, “We do find Indonesia expensive [relative to other Southeast Asian countries], but if you look at small- and medium-sized deals, you can still get them at 6x-8x EBITDA, and these are decent, middle-sized companies.” “The most challenging part of doing business in Southeast Asia is talent,” Northstar’s Walujo explained. “No matter how much you want to pay, those people just aren’t available. So we tend to shy away from industries where expertise is not available.” Walujo said finding talented management teams is a critical part of investing in Southeast Asia. “We are highly invested in the infrastructure of our organisation, making sure that we have the people and the ability to affect the operations of these businesses.”