

THE HYPE IS RIGHT - ASIAN PRIVATE EQUITY INVESTING SOARS IN 2006

With its fingers on the pulse of Asian private equity activity, AVCJ's Research Dept watched as its screen monitors beeped furiously – as data for the year to date showed a sudden jump in new investments regionwide, from \$6.5 billion in Jan-May 2005 to \$19 billion for the same period in 2006. And India leapt into the lead investment destination position, while China moved to second place, ahead of even Japan. Furthermore, all this happened against a background of almost flat fundraising: only \$7.6 billion YTD 2006, compared to \$7.3 billion last year. So at first sight, it seems like the recurrent anxiety of the last couple of years – that the region cannot absorb the billion-dollar funds being raised to target it – is now history.



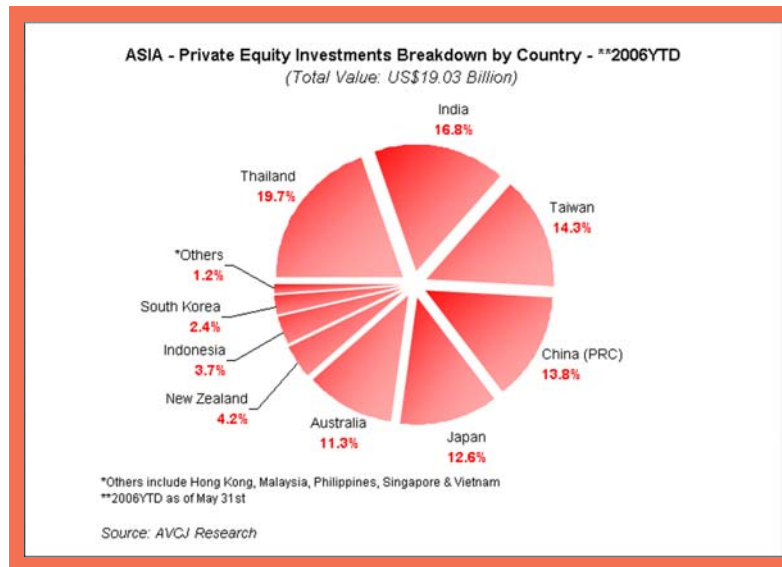
Eric Thompson

Are these figures only the half of it?

Seismic shifts in the statistics like this attract comment. Some industry observers questioned whether this was just an anomaly born of a few one-off deals. Others pared definitions, arguing that titans like [Temasek](#) could not be classed as true private equity investors. AVCJ polled a series of industry figures for their interpretations.

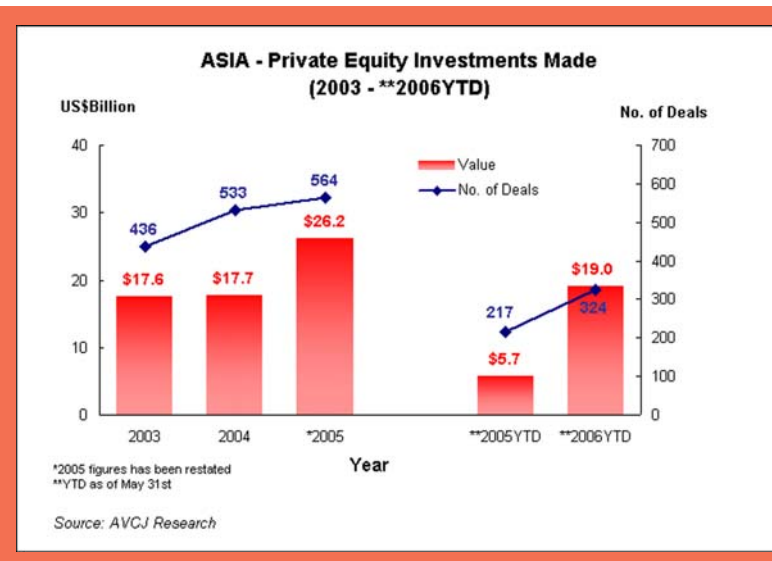
“Is this capital that was brought in last year and is now being deployed?” asked Eric Thompson, Director with Alvarez and Marsal Asia, raising the question on everybody’s lips. Temasek was one of the regional investors digging deeper into its historic reserves to put money to work. The year’s biggest deal so far, the controversial \$3.63 billion acquisition of Thailand’s Shin Corp., and the \$700 million purchase of Chandra Asri Petrochemical Center in Indonesia, were both Temasek deals.

Commentators duly questioned whether this truly represented a dynamic private equity industry. However, even the most purist industry observers agreed that these large deals at least show that the opportunities are there, though Temasek’s diplomatic leverage may assist in getting them unlocked. Furthermore,



the two other \$1 billion+ deals so far this year, Carlyle’s \$1.3 billion acquisition of Eastern Multimedia in Taiwan and [Newbridge Capital](#)’s \$1 billion buyout of Coles Myer in Australia, were both classic private equity deals. And transaction volume rose from 217 in Jan-May 2005 to 324 in Jan-May 2006.

And the figures exclude Temasek’s purchase of almost \$4 billion of Standard Chartered stock in London in late March (see [AVCJ Apr 3](#)), for 11.55% of the bank. Furthermore, SoftBank has sometimes been classed as a private equity investor: on this score, its \$15.1 billion acquisition of Vodafone Japan (see [AVCJ Mar 13](#)) could be added in to drive the figure still higher – and private equity bidders were definitely also in the frame for this deal. So by some counts, AVCJ’s YTD total is only half the true amount.



“The number of deals that you’re seeing where the price tag is several hundred million clearly is increasing,” Neil Torpey, Chair of the Hong Kong office and Partner in the corporate department at Paul, Hastings, Janofsky and Walker, remarked. “We expect to see that volume continue to increase.” However, he also felt that there were some statistical artifacts skewing the data. “A lot of it went into a few big investments.”

Thompson pointed out that “some of the funds didn’t show up until early last year: [KKR](#) for example. Or at least, they didn’t have as active a presence in Asia.” Fortunately for KKR, their debut India deal, Flextronics, was big enough at \$900 million to jump into the Top Ten YTD.

Overhang or overdue?

Whatever their skepticism about the nature of some of the investments, the market authorities had no doubt that Asia had a need for such a volume of capital. “You can make the argument that the need for capital here far outstrips the need in certain other markets in the world, simply because this region has so many companies that could gain a tremendous benefit from an injection of serious capital,” according to Torpey.

Commentators persistently reiterated that quantity and quality of deal flow could be quite a different



Neil Torpey

matter to overall size of opportunity. “It doesn’t necessarily refute the idea that there’s a lot of capital chasing a few deals,” Thompson pointed out. “The size of these funds is enormous. While they’re obviously investing at a healthy clip, they still have substantial excess capital that they need to deploy.”

“Obviously private equity availability and aggregate deal values are positively correlated,” noted [Nick Bloy](#), Director at [Navis Capital Partners](#). “However, they do not move in lockstep, so you get periods of overhang or underhang during which acquisition multiples will rise and fall, but worrying about these periods is just industry hot air. Such periods have always been a temporary phenomenon.”

ASIA - Top 10 Private Equity Investments (As of May 31st, 2006)

Investee (Country)	Industry	Value (US\$m)	Stake	Stage	Annoucement Date	Investor(s)
Shin Corp. (Thailand)	Telecommunications	\$ 3,632	96.3%	Buy-outs (MBO/MBI/LBO)	Jan-06	Siam Commercial Bank / Temasek Holdings / Undisclosed Investor(s)
Eastern Multimedia (Taiwan)	Telecommunications	\$1,300	60.0%	Buy-outs (MBO/MBI/LBO)	Apr-06	Carlyle Asia - China
Coles Myer - Myer department store business / Myer Melbourne (Australia)	Retail/Wholesale	\$ 1,044	100.0%	Buy-outs (MBO/MBI/LBO)	Mar-06	Myer Family / Newbridge Capital
Flextronics Software Systems (India)	Computer related	\$900	85.0%	Buy-outs (MBO/MBI/LBO)	Apr-06	Kohlberg Kravis Roberts
Taishin Financial Holding (Taiwan)	Financial services	\$840	24.3%	PIPE Financing	Jan-06	Newbridge Capital
Chandra Asri Petrochemical Center (Indonesia)	Mining and metals	\$700	50.5%	Buy-outs (MBO/MBI/LBO)	Jan-06	Temasek Holdings
Shandong Chenming Paper (China (PRC))	Manufacturing - Light	\$617	30.0%	PIPE Financing	May-06	CVC Asia Pacific
MEI Conlux (Japan)	Electronics	\$500	100.0%	Buy-outs (MBO/MBI/LBO)	Apr-06	Advantage Partners / Bain Capital
Sony Corp - retail operation (Japan)	Retail/Wholesale	\$464	51.0%	Buy-outs (MBO/MBI/LBO)	Feb-06	Nikko Principal Investments Japan
E.SUN Financial Holdings (Taiwan)	Financial services	\$ 400	15.0%	PIPE Financing	Mar-06	Temasek Holdings

Source: AVCJ Research

Regional markets on the rise

As the AVCJ Research data shows, the new money is targeting quite specific hot markets. India especially has gone from \$700 million of new investment over Jan-May 2005 to \$3.2 billion in YTD 2006. Although almost all these investments are small, barring standouts like Flextronics, “India is the flavor of the day,” as Thompson says. “There’s a tremendous amount of interest. It seems that our clients in Asia spend time in India every week.”

“India is obviously becoming a more attractive place to commit capital, and we see that continuing,” Torpey echoes. And the head of a prominent Indian fund, although admitting that the recent sharp correction in the Indian bourses may inhibit private equity-backed IPOs, remarked that the appetite for new issues should remain undiminished.

Thompson felt the recent correction in India is “probably healthy, so long as it doesn’t jerk things around too much.” But he cautioned that “you have US and European investors in these funds who are having to demonstrate some kind of India presence. There’s probably tremendous pressure to have a balanced portfolio and have these assets.”

China, now second only to India at \$2.6 billion invested in 2006, up from \$868 million in 2005, is equally attractive, not the least to Western LPs pushing their GPs. “There are hundreds of companies in China alone that, given the right management team and circumstances, could really benefit,” Torpey noted. “The issue is not whether the capital is needed. The answer is clearly yes. The issues more are, are there enough world-class management teams to look after and appropriately allocate the capital that could be brought in from the private equity side, and can the deal be structured, executed, and closed within an acceptable time period?”

Thompson also feels China will continue to be attractive – of necessity. “Any company that has a manufacturing base throughout the world that one of these private equity firms invests in already has something in China.”

Prospects for the sector

Overall, *AVCJ*’s straw poll of pundits felt the research data was an accurate pointer to the prospects for Asian private equity – if not necessarily for individual funds. “We definitely think it’s an evolving market,” said Thompson. “From a positive perspective, all the new capital coming to the region is going to improve things, such as corporate governance.” But he



Nicholas Bloy

added, “With interest rates rising, and a 7% spread between risk-free rates and average returns, I have to believe it’s going to put additional pressure on all these folks to keep up the stellar returns they have shown. They can do that by getting in there and helping these companies.”

“Overall, M&A activity as a percentage of GDP is very low in Asia, and private equity’s share of M&A is also very low – the industry is incredibly immature,” concluded Bloy. “Put another way, Asian private equity deals account for 6-7% of global private equity deals, whereas Asia’s GDP is 36% of global GDP. What you are seeing is a maturing process that will continue for another 10 or 20 years, assuming the right conditions persist.” - *PSM*

COLLER CONFIRMS ASIA TREND

In its latest ‘Global Private Equity Barometer,’ released a week after the *AVCJ* Research data was first aired, Collier Capital has reinforced the growing success and popularity of Asian private equity and venture capital – especially buyouts. For the first time ever, the 108 LPs polled rate Asia-Pacific buyouts as the most attractive asset class for the 12 months ahead, beating both European and North American buyouts. Also, their reported net returns from Asia-Pacific buyouts compare well to those from Europe and North America, to within a few percentage points. Strangely, though, LP satisfaction with Asian buyout returns has stayed static since 2005, while the Barometer shows satisfaction with Asian venture, and Western buyouts, leaping ahead in 2006. Clearly there is still a perception gap to overcome.

More on the Barometer and *AVCJ* Research findings next week.

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