

A red sailboat is in the foreground on the left, with its mast and rigging visible. In the background, the Hong Kong skyline is visible across the water, featuring the prominent International Finance Centre (IFC) tower. The sky is blue with some light clouds. A yellow diagonal graphic element is on the right side of the image.

A maturing market

Asia-Pacific private equity outlook 2014



Building a better
working world





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Executive summary

The private equity story in Asia-Pacific is a coming-of-age tale, one of demonstrated growth not only in volume and value terms, but also in the market's maturity. Investors are becoming more sophisticated, utilizing new means of investment to tap the region's potential. Emerging markets like Greater China and India present ample opportunities for general partners (GPs) and institutional investors. Former frontier markets, such as those in Southeast Asia, continue to move to the top of investor agendas.

More importantly, regional business leaders are developing a more comprehensive understanding of the private equity model. While a full embrace is still in the making, the benefits that private equity offers – in capital, talent and expertise – are causing a noticeable shift in attitude toward foreign and domestic PE firms alike.

Investor confidence and overall optimism for the year ahead remain high. Growing economies are creating new business opportunities. Improving market conditions will provide the needed encouragement for new investments in 2014. Equally, robust credit markets are making capital more accessible and hold the potential to facilitate an increase in deal-making going forward.

As a result, 76% of respondents in this year's survey had high expectations that private equity deal activity in 2014 will increase. For the most part, this sentiment toward improved investment has remained unchanged over the past two years – 86% for the 2013 outlook and 70% for 2012 – with survey participants noting that volatility in Western markets and Asia-Pacific's abundance of investing opportunities will continue to draw PE dollars.

Respondents in this year's survey also revealed several interesting developments they expect in the year ahead.

Corporates seen as less of a threat to PE interests

- ▶ Cash-rich corporates will no longer pose the greatest challenge to private equity in Asia-Pacific, with only 40% emphasizing this obstacle compared with 79% in last year's survey.
- ▶ While competition will remain between private and strategic acquirers as corporates deploy vast M&A war chests, particularly in Southeast Asia, private equity will continue to gain ground as global buyout firms increase their presence and as local firms capitalize on their knowledge of the local business landscape.

“Corporate buyers are becoming less the foe and more the ‘peng you’ – Chinese for ‘friend’ – of private equity in Asia. This shift in attitude has developed as corporates are seen as less of a threat in competitive situations and more as potential buyers since Asian PEs are turning to trade sale exits while the IPO frenzy of past years wanes.”

Robert Partridge, Private Equity Leader – Asia-Pacific, EY

Turning to trade sales to exit portfolios

- ▶ Trade sales to corporate buyers will be the preferred exit route among GPs as IPO opportunities remain scarce. Even with the listing hiatus in China lifted, a pipeline of deals has built up that will result in considerable waiting periods among PEs looking to exit through IPOs.
- ▶ A number of private equity firms across the region, particularly in Southeast Asia, have already benefited from the demand for assets by exiting portfolios to corporates for a sizable profit.

Buyouts becoming more prevalent across emerging Asia

- ▶ Respondents noted that buyout deal flows would increase in the year ahead: 7% said “significantly” and 62% said “slightly.”
- ▶ Buyouts to date have been largely confined to the region's mature markets – Japan, Australia and even Singapore – although control acquisitions are gaining momentum in emerging Asia, respondents noted.
- ▶ China is gaining attention as the largely minority-stake market shifts emphasis to buyouts and control acquisitions. A number of respondents from Greater China said buyouts would increase slightly or maintain current deal flow levels.

Asia-based funds displaying greater competence in the field

- ▶ Asia-based funds will continue to pose a greater challenge to global PE agendas in the year ahead, with 99% of respondents anticipating that competition in terms of raising capital would be significant.
- ▶ Likewise, 94% said executing transactions in Asia vs. non-Asia fund situations would prove difficult for foreign firms.
- ▶ In EY's 2012 PE outlook, 82% said competition in terms of raising capital would be significant. Almost 90% said the same about executing transactions that year.

Secondary buyouts gain momentum

- ▶ Aside from sales to corporates, sentiment toward secondary buyouts (SBOs) was also hopeful, with survey participants casting their vote in varying degrees: the highest was Southeast Asia at 80% of respondents, and the lowest was South Korea with 36% for the secondaries market.
- ▶ A number of respondents noted this trend toward SBOs is a sign that the Asian private equity market is reaching a new level of maturity as firms and fund managers realize the exit's value creating potential.

Valuations, regulatory issues create the most headaches

- ▶ Overvalued targets will create the most hurdles, with an impressive 62% of respondents choosing this option. This follows an upswing in sentiment from last year, when only 48% felt valuation issues would prove most challenging.
- ▶ Regulatory issues will also pose a challenge, according to 60% of respondents, especially among foreign private equity firms new or unfamiliar with local investment landscapes.

Making acquisitions and fund-raising factor highly on PE agendas

- ▶ Completing deals and adding to portfolios factored highly into fund managers' priorities for the year ahead, according to 25% of respondents. These acquisitions will focus on control buys as opposed to minority investments as private equity firms seek a greater voice in the affairs of their portfolio companies.
- ▶ 23% of respondents said fund-raising would be a priority, noting that GPs would focus on raising new funds after exiting current investments.

Consumer supplants energy, mining and utilities as preferred sector

- ▶ After two years, energy, mining and utilities slipped from the top spot in preference among respondents, replaced overwhelmingly by the consumer sector.
- ▶ In past years, only 5 to 8 percentage points separated the top two sectors. This year, the divide grew to 19 points: consumer had 72% of respondents, while energy, mining and utilities had 53%.

Institutional investors to increase capital inflows

- ▶ As in 2013's outlook, respondents overwhelmingly agreed that institutional investor allocations in Asia-Pacific PE would increase in 2014. A full 77% said such allocations would increase, while 20% said it would stay the same as in the previous year.
- ▶ Institutional investors from Greater China and Australasia will be the prime investors from Asia, according to 77% and 45% of respondents, respectively.
- ▶ Most institutional equity capital inflows from outside Asia will originate from North America, according to 58% of respondents, an increase from 47% for 2013. Respondents likewise favored an increase in inflows from Europe: 50% for 2014, up from 28% the previous year.

Distressed debt investing to lead deal types

- ▶ Distressed debt acquisitions will be the main deal type for private equity firms in the year ahead, according to 58% of respondents. The response rose several places over 2013's survey to supplant management buyouts as the top deal type.
- ▶ Such transactions are likely to occur in Asia's developed markets – Japan and Australia – as opposed to emerging markets like Greater China or Southeast Asia.

Overview of 2013

As 2012 gave way to a new year, hopes were high of a revival in private equity investment following a year of flat and directionless activity across Asia-Pacific. These expectations, favored by industry experts and respondents in previous EY outlook reports, failed to materialize, with a much slower pace of activity becoming the reality across the board.

Buyouts in 2013 remained relatively tame, keeping pace with year-to-date figures from the previous year. As of 28 October 2013, private equity firms had completed 251 transactions, compared with 311 in 2012. Buyout values were likewise down, US\$29.1b to US\$31.1b in 2012 (Figure 1).

While Asian firms had the heaviest hand in deal-making, foreign interest maintained its presence. Inbound buyouts accounted for 32% of volume and 22% of value, with prominent firms like KKR, Blackstone, TPG Capital and the Carlyle Group completing some of the year's largest transactions. Most foreign buyouts focused on Greater China, with 6 of the top 10 made in that jurisdiction. The year's largest inbound transaction was completed in Japan: KKR's US\$1.3b acquisition of Panasonic's health care business.

Similar megadeals, however, have been rare. Eleven deals valued above US\$1b were completed in 2012, while 2013 saw only five. Deals below US\$100m have come to define private equity buyouts in the region, accounting for 75% in 2012 and 67% in 2013 as investor interest in cash-intensive buys waned.

In terms of raising funds, private equity firms closed a number of impressive funding vehicles reaching into the billions of dollars. KKR, seeing Asia-Pacific as the world's growth region, closed its second Asia fund, worth a staggering US\$6b, the largest ever raised for the region. The global firm said it would specifically deploy a portion of its record-setting fund to buys in Japan and Australia. In July 2013, the Carlyle Group launched its third Japan-focused fund, setting out to raise US\$1b, with TPG Capital in the market to raise US\$3.5b for its Asia fund.

Asia-based funds likewise set out to complete ambitious fund-raising targets. Last October, Korea-based MBK Partners closed its third fund at a hard cap of US\$2.7b. Malaysia-based Navis Capital launched its seventh fund, aimed at Southeast Asia, targeting US\$1.3b. Other pan-regional vehicles included Affinity Equity Partners' US\$3.5b fund.

When not making acquisitions or raising funds for new buys, private equity was busy heading for the exit. Over the course of 2013, firms completed 206 exits worth US\$36b. This came amid less-than-desirable market conditions that have kept private equity on the sidelines in recent years. China's closure of its capital markets to IPOs has likewise had an impact as investors grow impatient and unwilling to wait out the hiatus.

With IPOs failing to provide the preferred exit route, private equity ramped up trade sales to strategic buyers, offloading 166 portfolio assets worth US\$31.5b. With extensive cash reserves and a renewed appetite to acquire, corporate buyers provided a quick and efficient avenue for PE to reap returns on their investments. This willingness to exit as opposed to wait, however, does create something of a harbinger of market expectations: if private equity is divesting assets en masse, perhaps the general consensus is of continued market volatility in the months and years ahead.

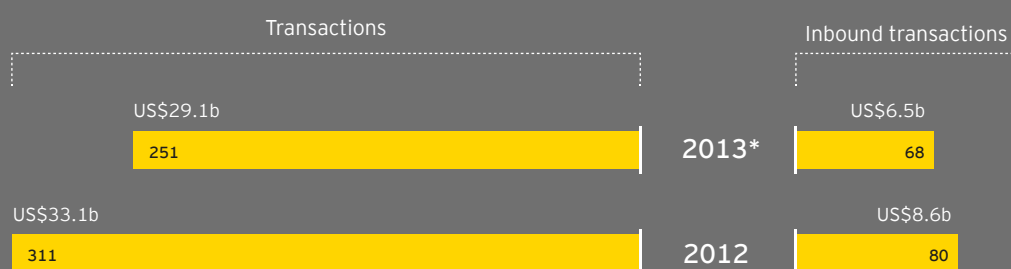
“While reforms to the public listing process in mainland China will introduce new rules and expedite approvals, we’re going to have to wait another quarter before we can tell if this new system is as effective as claimed. Once we get through the first round of listings in 2014, private equity will have a better idea of what to expect, or how much longer they must wait to exit investments.”

Ringo Choi, EY Asia-Pacific IPO Leader

Figure 1

Asia-Pacific private equity — 2013 highlights¹

Buyouts



Top deals

Largest transaction

US\$1.6b

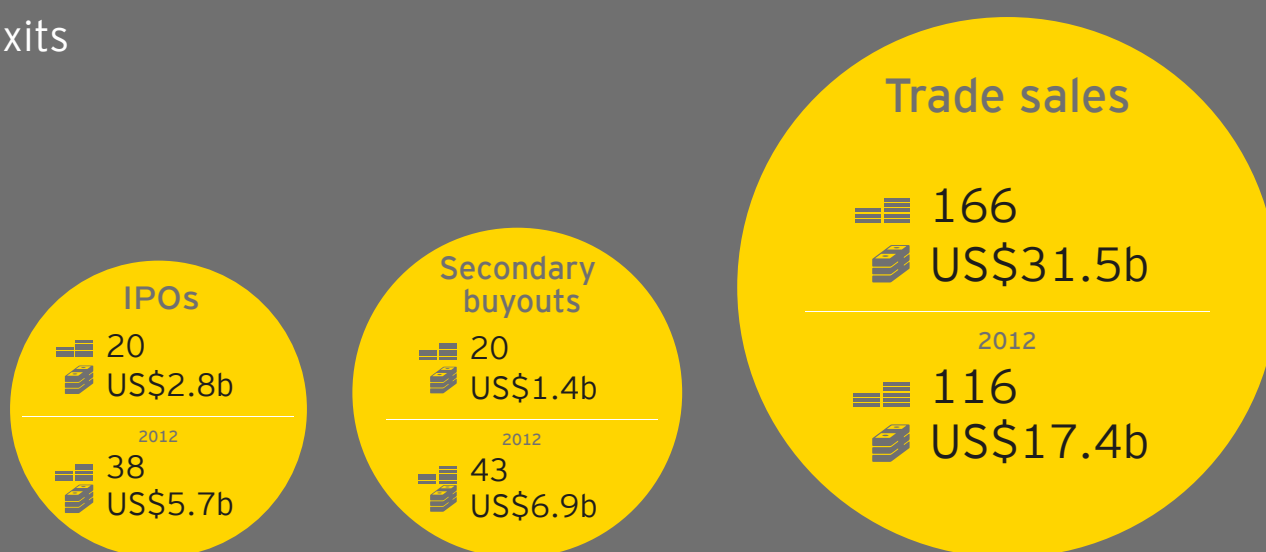
MBK Partners acquisition of ING Korea Life Insurance Company

Largest inbound transaction

US\$1.3b

US-based KKR acquisition of Japan-based Panasonic Healthcare company

Exits



Volume Value

¹Data for 2013 is YTD as of 28 October 2013

Priorities in 2014

The calendar year has changed, but private equity practitioners will continue to do what they have done in years past: add assets to their portfolios. Making acquisitions will continue to top fund managers' agendas, according to 25% of respondents (Figure 2). These acquisitions, respondents said, will focus more on control buys as opposed to minority investments as private equity firms seek a greater voice in the affairs of their portfolio companies. Control stakes also allow GPs to place managers in desired positions and accurately monitor company performance. While control acquisitions are ideal, a number of respondents noted that government regulations are limiting investment to minority stakes.

Fund-raising will also factor heavily into private equity priorities in 2014. With a number of ambitious funds closed in the last year respondents note that as firms meet fund-raising targets, they will increase acquisitions in the year ahead.

Respondents also emphasized the need to improve operational performance in portfolio companies. As some noted, GPs in Asia will look to add value to their portfolio assets in the form of vision and strategy, improving corporate governance and financial decision-making systems.

Exiting current investments will also be a goal in 2014. Respondents did, however, note that until exit opportunities arise and fund managers are able to find preferable exit valuations, focus will remain inward, improving operations and raising company value.

Standing in the way of these priorities are several challenges. In previous years, competition from cash-rich corporate acquirers held the top seat in challenges facing private equity in Asia-Pacific. This has given way, and by a substantial percentage, to overvalued targets as the main challenge among private equity investors going into 2014.

In this year's survey, an impressive 62% of survey participants chose overvalued targets, with competition from strategics falling to sixth with 40% of respondent sentiment (Figure 3). The reason, respondents said, is simple: companies across Asia-Pacific believe they are in greater demand by private and corporate, foreign and local investors.

Regulatory issues also pose a challenge, according to 60% of respondents, especially among foreign private equity firms that may not be familiar with local investment landscapes. When investing, these firms are likely to engage a local partner as a precaution before moving forward.

"In Asia-Pacific, private equity funds are focused on working with dynamic entrepreneurs and management teams, providing them with capital and strategic advice to support their future growth. Private equity funds have become flexible and are investing in both small and big companies with short-term strategies to ensure long-term gains."

Southeast Asia-based GP

Figure 2: What will be the primary focus of private equity across Asia-Pacific in 2014?

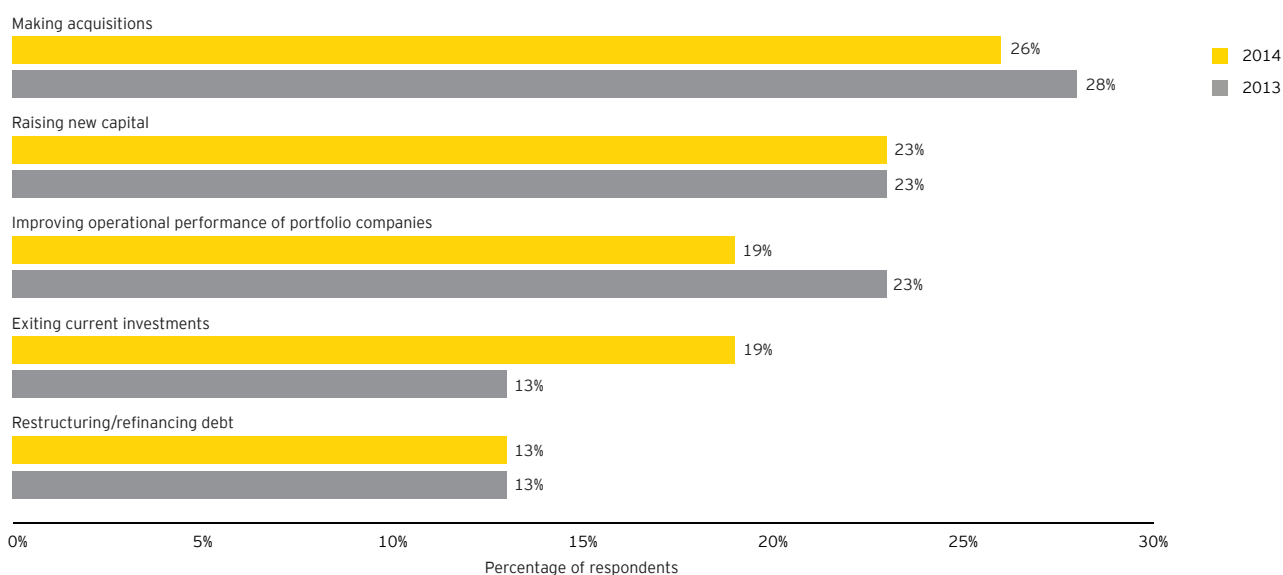
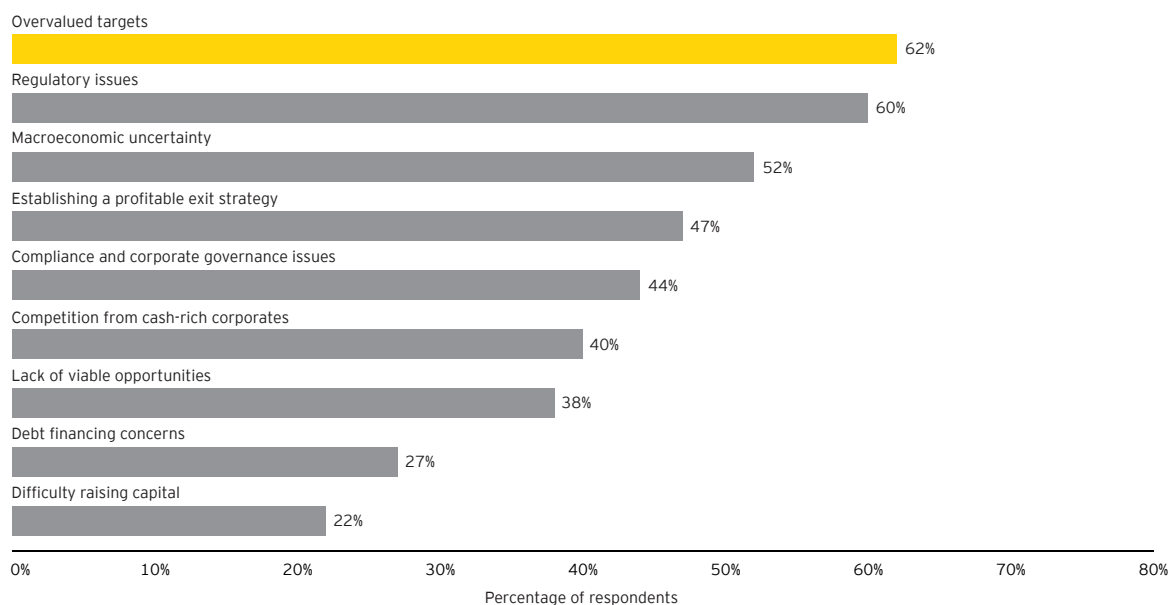


Figure 3: What will be the most significant challenges facing private equity in the region over the next 12 months?



Top trends

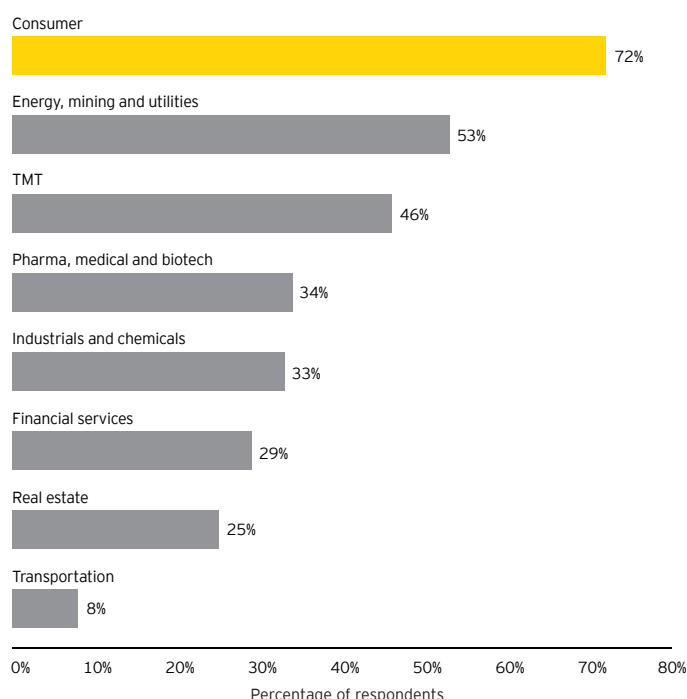
The role of the Asian consumer

With the growth of middle classes across Asia-Pacific, exemplified by shifts in demographics and income groups in China and Southeast Asia, a shopping spree of M&A in the region's consumer sector has occurred in recent years. The result has been head-to-head competition as corporate acquirers and private equity firms vie for assets.

Respondents have also taken note, choosing the consumer space as the sector most likely to receive attention from private equity over the next 12 months, according to 72% of respondents (Figure 4). The top position was previously held by the energy, mining and utilities sector in outlooks for 2012 and 2013. Respondents said favorable demographics highlighted by young populations with shifting lifestyle trends are creating demand for consumer goods across the region.

The telecommunications, media and technology (TMT) sector is also enjoying growth as young, tech-savvy consumers flock to outlets to buy the latest smartphones and other handheld devices.

Figure 4: Which sectors will receive the most private equity investor interest in 2014?



The TMT sector is also changing the way people and companies communicate, share information and conduct business, a trend on which private equity wishes to capitalize. Respondents said that both the consumer and TMT sectors offer private equity various opportunities to buy small and fast-growing companies – a perfect fit for the private equity model.

Asia's energy, mining and utilities space will also likely see investment in the year ahead, according to 53% of respondents. While private equity firms have traditionally avoided investment in this sector due to political risks and the regulatory hurdles involved, as the region's energy needs grow, the sector could prove an irresistible target.

Deal flows: buyouts

Despite the competition from corporates, respondents noted that buyout deal flows would increase in the year ahead – 7% said “significantly” and 62% said “likely” – especially as global buyout firms deploy more resources in Asia-Pacific. The availability of leverage would have the greatest impact on buyout deal flows over the next year, according to 75% of respondents, followed by changes in government regulations (62% of respondents) removing barriers to private investments (Figure 5). Also, as private equity firms exit portfolios nearing maturity, many will begin gearing up to make acquisitions. This stood in contrast to previous years when respondents said macroeconomic conditions and market uncertainties would have the greatest effect.

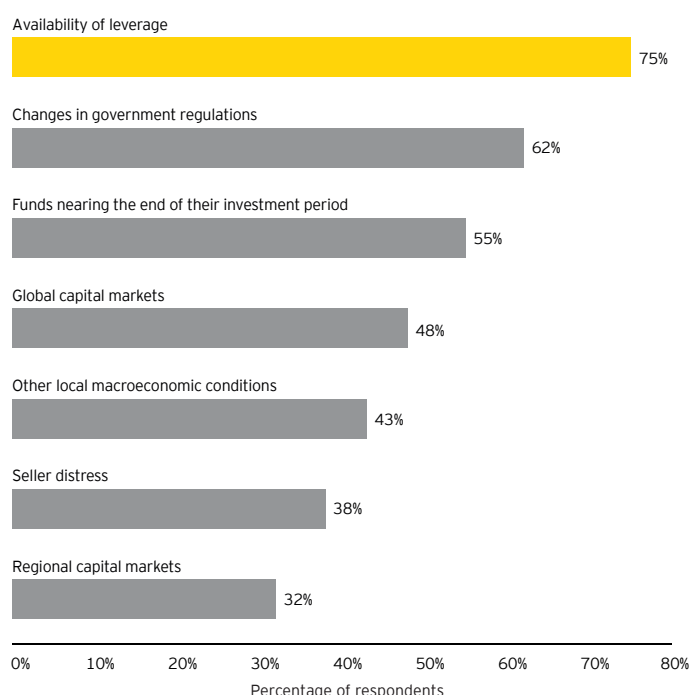
While the private equity model works across all deal sizes, deal makers' preference for deals in the mid-market should be expected. Smaller deals involving small to medium-sized enterprises (SMEs) are typically sought out over billion-dollar forays due to their growth potential and likelihood to produce higher returns.

Similarly, mid-market business owners are more likely to realize the benefits of involving private equity in their business to improve performance. While Asia-Pacific has yet to reach a level of market maturity on par with North America and Europe, this increasing awareness among business leaders in the region to the private equity model and its benefits could help propel deal activity.

“Asia’s most mature markets, like Singapore, will showcase the biggest buyouts compared to the small and medium-sized deals that have occurred across the region. Larger deals similar to those in Western markets are rare here in Asia, and will be increasingly so, due to increasing competition from other PE firms.”

Southeast Asia-based institutional investor

Figure 5: What factor(s) will have the greatest effect on buyout deal flows in 2014?



Deal valuations

The valuation gap continues to be a make-or-break point between private equity buyers and sellers across Asia-Pacific. While market volatility and an uncertain macroenvironment have caused the overall value of companies for sale to decline while raising private equity hopes to acquire, deals have been lost due to an inability to find common ground on one crucial element of the transaction: deal value.²

A number of factors will contribute to the valuation climate in Asia-Pacific. According to 60% of respondents, the recent financial performance of companies posed the largest obstacle to finding a fair market value (Figure 6). Where sellers see potential for improvement, buyers have seen only the red of the balance sheet.

Bidder competition is also inflating company values, with private equity firms competing against their industry peers and corporates for an already small number of desired targets. Respondents said that competition from new or local entrants into the private equity arena will continue to drive increasing valuations. For the gap to close, macroeconomic conditions will have to improve, allowing the pool of quality targets to flourish.

Macroeconomic uncertainties also feed the valuation dilemma, helping and hindering private equity efforts. These uncertainties make it difficult for foreign firms to make investments with confidence – they also create conditions where distressed companies can become cheap targets. However, just as macroeconomic volatility can result in a downturn, it can just as quickly give rise to an upswing. This is causing many targets in Asia-Pacific to prefer a “ride out the storm” approach, waiting for market conditions to return rather than selling a stake in their company at a depressed value.

“Private equity's ability to bridge the deal gap needs a number of ingredients for success. Structuring the valuation to accommodate both parties interests is of course the most important element. But the ability to build a personal rapport with the target, the demonstration of value addition beyond just an investment check and instilling the perception that the fund is a longer term partner goes a long way towards winning the deal.”

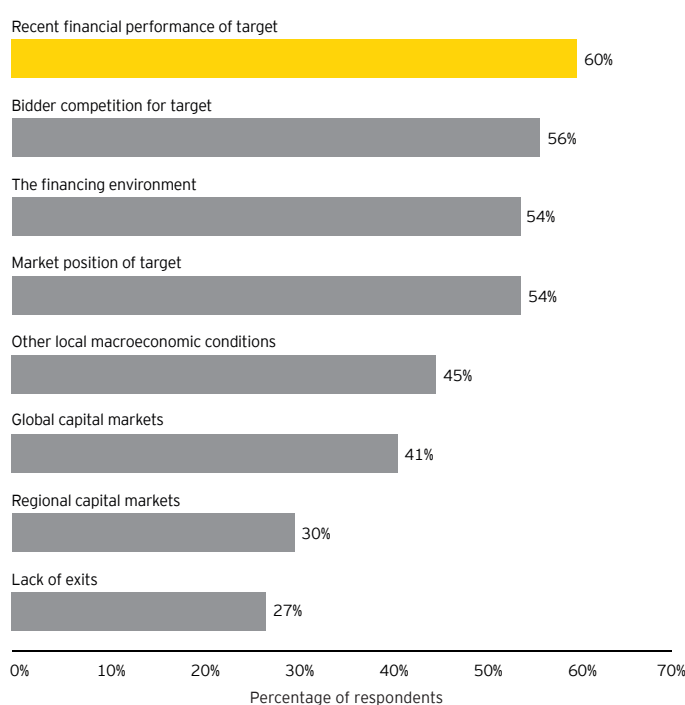
Luke Pais, EY M&A Leader for ASEAN

Financing

While few respondents would argue that the financing environment has returned to pre-crisis levels, many hold positive views that deal financing will be more accessible going forward. More than half – 54% – of respondents said deal financing would be easier to obtain, albeit with more covenants (Figure 7). Similarly, 31% were optimistic that deal financing would eventually return to pre-credit-crisis levels. Respondents also noted that financing is available to firms with proven track records – poor performers will face lending difficulties.

This comes as credit markets across Asia-Pacific have tightened as the major banks scale back lending or show preference for more promising corporate clients. The brunt of this cash withdrawal, while affecting private equity, is being most acutely felt by capital-starved SMEs and family-run businesses. This development has opened up opportunities for private equity firms with fully loaded funds to act as bankers in the region, as these small-scale companies search desperately for financing to fund growth or prevent insolvency.³

Figure 6: Which of the following do you think is/are having significant influence(s) on the current private equity valuation climate in Asia?



56%

expect new fund opportunities to increase

“The issue of financing could pose a twifold problem: macroeconomic uncertainties remain, and policy constraints make it difficult to access financing. For example, in India acquiring financing is a drawn-out, complex ordeal. In the time it takes to receive approval, opportunities might be lost to competing parties.”

India-based investment banker

Fund-raising

Fund-raising has declined as institutional investors display a willingness to wait for GPs to exit current portfolios and return capital to investors. This, however, will prove difficult until IPO opportunities return. As exits increase, so too will LP interest in new funds.

According to respondents, new fund opportunities will increase, either significantly (3%) or slightly (53%) in the year ahead. Survey participants noted that a growing number of foreign private equity firms are looking to enter Asia-Pacific, setting up funds and attracting LPs. Many also shared the view that foreign firms would be more successful than their domestic peers, since international funds have better track records and stable reputations in their ability to manage portfolios. For this reason, respondents said new local entrants would have the most difficult time raising funds, due largely to their inexperience and lack of recognition among institutional investors (Figure 8).

Figure 7: How would you best describe the private equity financing environment across Asia over the coming 12 months?

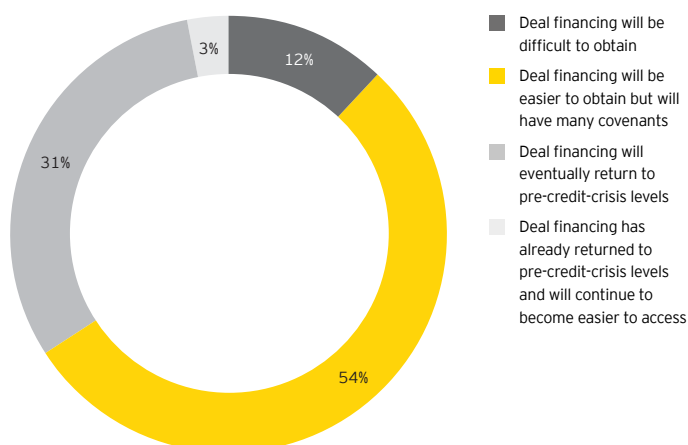
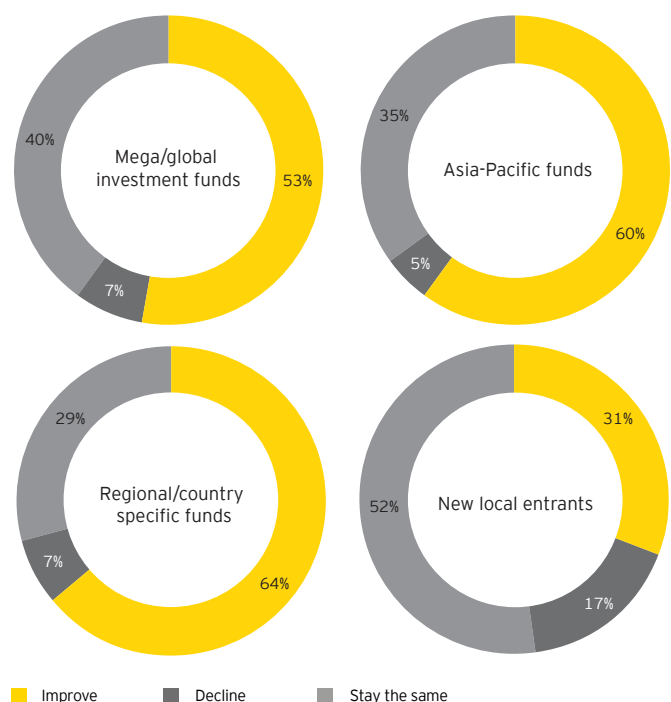


Figure 8: What do you expect to happen concerning the ease of fund-raising for each of the following fund categories?



Confidence high for Asia-based funds

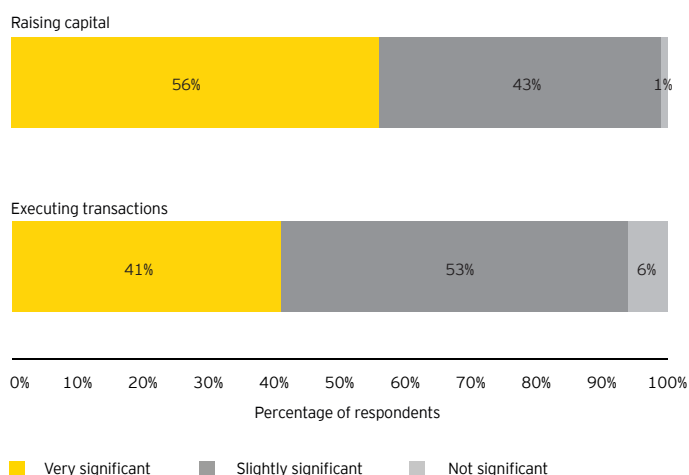
Aside from corporate acquirers, private equity firms must also contend with competition from within their own industry. As Asia-based firms become more adept and confident in their ability to manage larger funds, the challenge of raising capital and making transactions will increase in intensity in the year ahead, according to the vast majority of respondents (Figure 9).

Opinions have changed since the first iteration of the EY PE outlook in 2012. That year, 82% of respondents said competition from Asia-based funds would be significant in terms of raising capital, followed up in 2013 by 97%. In terms of executing transactions, 89% held similar beliefs for the outlook in 2012, with 95% for 2013.

Well-positioned within their respective markets and armed with on-the-ground expertise, Asia-based funds may have the upper hand in many situations against their foreign rivals. These funds are also hiring multinational talent to give them an edge and boost success rates and returns to investors. Due to this expertise and resilience, LPs will increasingly join with Asia-based private equity funds, according to respondents.

In Southeast Asia, fund-raising has increased for both Asian and non-Asian funds, with a noticeable presence of new entrants raising funds. Existing firms, some with already existing cash advantages, are also ramping up fund-raising.

Figure 9: How significant is competition posed by Asia-based PE funds to global players?



Institutional investors

Seeing the region's potential, institutional investors continue to commit to private equity funds, a trend respondents said will continue in the year ahead. As in 2012, respondents overwhelmingly agreed that institutional investor allocations in Asia-Pacific private equity would increase in 2014.

In Asia-Pacific, institutional investors from Greater China and Australasia will be the prime investors from within the region, according to 77% and 45% of respondents, respectively (Figure 10). This fell in line with sentiment from the previous year, when survey participants felt these two jurisdictions, with large amounts of capital on hand, would be the largest contributors of institutional capital. This, matched with a willingness to invest, is providing impetus for private equity funds in the region.

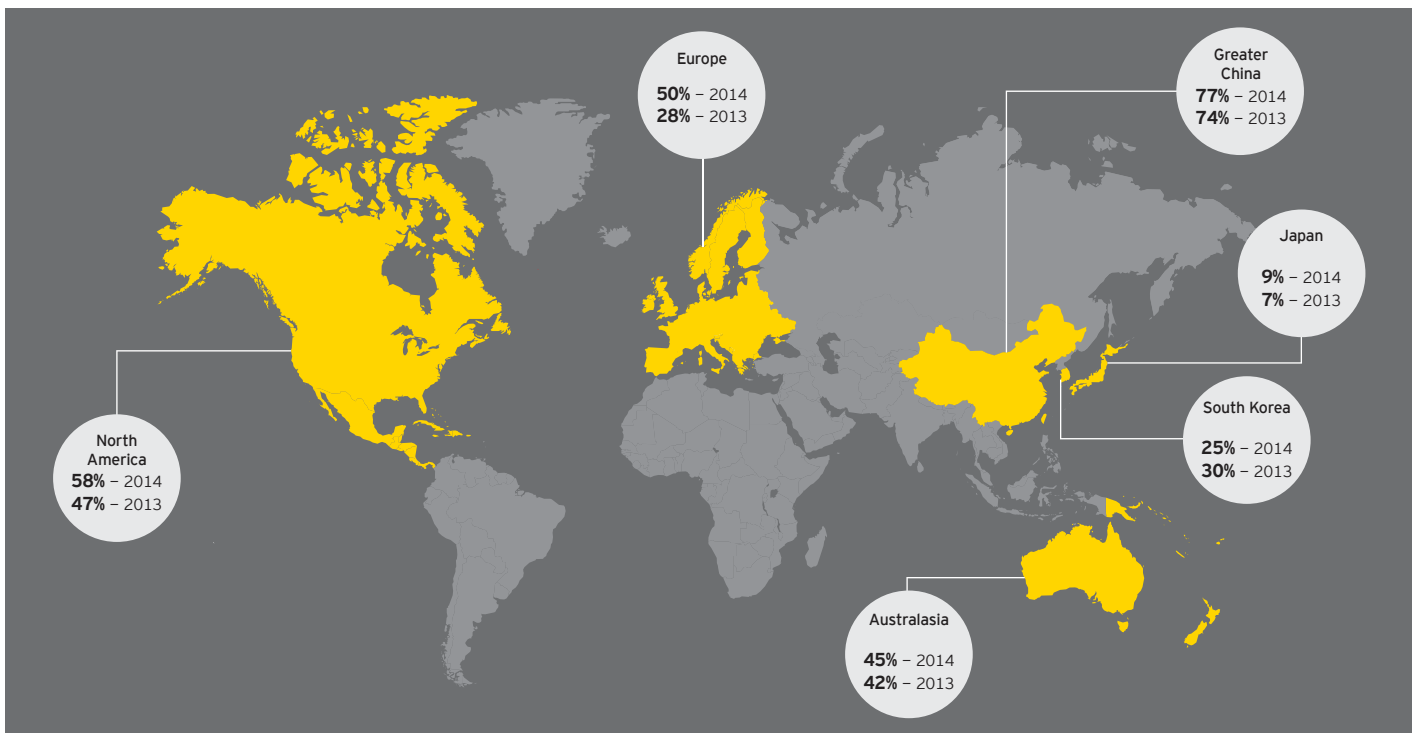
As for foreign participants, North America stood out as the dominant source of international institutional capital making its way into Asia-Pacific. Europe, too, will play a contributing role, rising two places to surpass South Korea and Australia from respondent feedback in 2012. While these foreign investors lack the on-the-ground knowledge that local investors enjoy, a dearth of prospects in their home markets is driving many to seek refuge in the emerging subregions and developed markets of the East.

In terms of target funds, regional and country-specific funds will likely see the most allocations from institutional investors (44%) since these funds have a keen awareness of the markets they are investing in (Figure 11). While sometimes having higher risk, regional and country-specific funds have acumen established through years of relationship building and expertise. Global investment funds will also attract investment (32%), as these funds have traditionally had the greatest reputations and experience investing in other markets, particularly in private equity's home markets of the United States and Europe.

77%

of respondents expect institutional investor allocations to Asian PE to increase

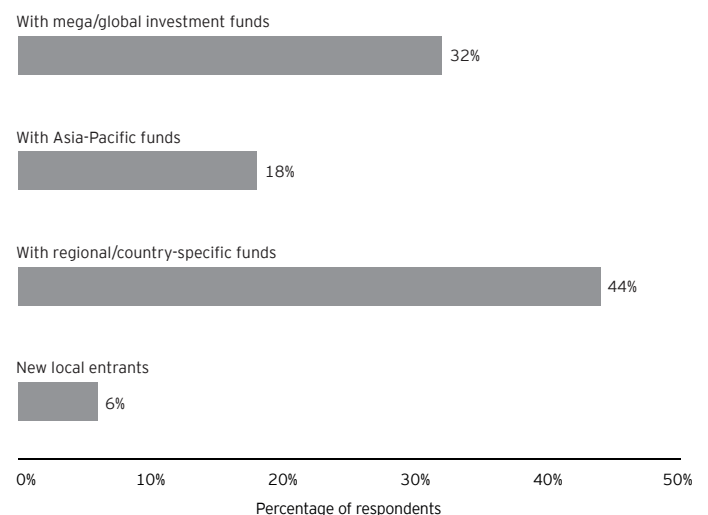
Figure 10: From where do you expect most inflows of institutional equity capital into the Asia-Pacific over the next 12 months?



“Having tasted success and higher returns from previous investments, even during times of volatility in the market, institutional investors have a growing appetite for private equity. These are returns they simply cannot find in capital markets.”

India-based investment banker

Figure 11: How will institutional investors make allocations to PE in 2014?



Top opportunities

Figure 12: Which geography will see the most private equity activity in the next 12 months?



“As a maturing market, opportunities in Asia-Pacific may be limited. Across emerging Asia, the buyout is a relatively new concept which has just started to gain acceptance. As interest grows, we’ll likely see increased buyouts, from small cap to megadeals, take place.”

Hong Kong-based investment banker

Expected deal activity

As in previous years, Asia’s emerging markets stood out as the likely targets for private equity investment. Greater China was chosen by the highest percentage of respondents – 56% for 2014 – as the market likely to see the most deal activity, with respondents citing relaxing restrictions for foreign firms. Opportunities for venture capital funds and investment in sectors across the board will also play in Greater China’s favor.

Southeast Asia will continue to be a beacon for venture capital and growth funds, in addition to investment in infrastructure and real estate. As such, 36% of respondents expected the subregion to see the most activity. While this echoed sentiments from previous outlooks, the gap between Greater China and Southeast Asia as the top market has narrowed substantially (Figure 12).

Only 7% of respondents said India would see the most investment, a surprisingly low figure but a slight increase from last year, when 4% harbored similar opinions. This stands in contrast to trends from the last several years involving buyouts, which show India’s viability as a market for acquisitions. While most buyouts were led by local firms, foreign investors continue to enter the sub-continent, where some companies are cheaply priced compared with neighboring China and Southeast Asia.

In value terms, Greater China and Australia have accounted for the highest-valued target assets. In Greater China, valuations have been high on buyer demand as investors flood the market. As a mature market and advanced economy, Australia is home to a number of established, profitable businesses. With track records of excellence and profitability, buying majority or minority interests in these companies has come at a price.

Investing in distressed debt

Although defaults by Asian companies are rare, slowed growth and increasing corporate debt across Asia-Pacific are putting added pressure on company balance sheets. This and the number of Asian companies that have become distressed due to overexpansion or mismanagement are creating a number of opportunities for private equity firms to buy distressed debt.

While experiencing financial difficulties, these companies are generally good businesses with bad balance sheets – that is, due to extended timeframes or unexpected costs to expansion, they are unable to service their debt under current operations.⁴ This creates opportunities for private equity firms to step in, fix the financials and improve performance to yield returns.

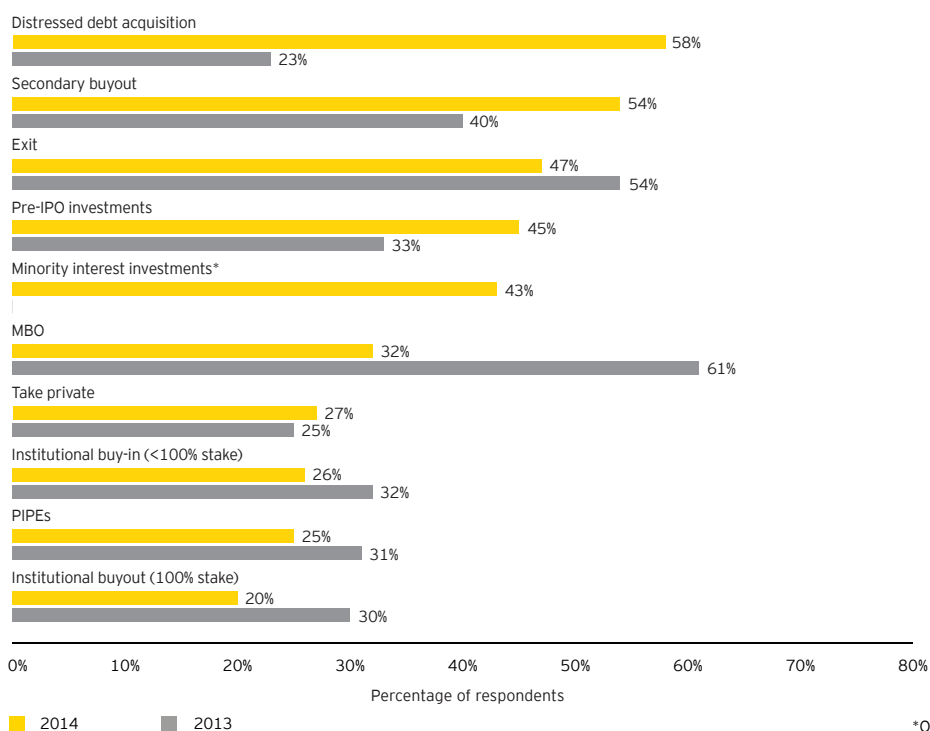
It is therefore not a total surprise that respondents anticipate distressed debt acquisitions to be the main deal type for private equity firms in the year ahead (Figure 13). The response rose several places over 2013's survey to supplant management buyouts as the top deal type.

Respondents also see opportunities for secondary buyouts as private equity firms look to exit portfolios nearing maturity and return capital to investors in the absence of IPO exit options. Deals in the secondary market have long been a common feature of mature Western markets, although as an exit they have trended toward an option of last resort. That has changed, as secondary buyouts rose in popularity to account for 22% of exits in 2012, with 43 PE-to-PE deals. While figures declined to 20 deals in 2013, a wider recognition of the buyout type's potential is proliferating.

“Wider use of secondary buyouts is a sign of market maturity. In the coming years, private equity will increasingly turn to this buyout type to exit investments through secondary markets.”

Mainland China-based GP

Figure 13: What type of private equity deal do you expect to see comprise the bulk of activity in Asia-Pacific?



Winning with family-run businesses

Family-owned companies have come to be an increasingly important, and somewhat challenging, part of the conversation of private equity in Asia-Pacific. A near impossibility to avoid when engaging in business ventures, in many instances these companies hold the keys to success for GPs. Yet, creating rapport and completing transactions with the dynasties behind these companies poses many challenges.

To begin with, while the private equity model is a well-known component of the business environment in Western markets, there are still considerable differences in understanding between buyers and sellers in Asia-Pacific, particularly in emerging markets. Even in mature markets like Japan, an ambivalence toward private capital, derived largely from a general misunderstanding of what the capital class can offer, continues to hinder private investment.

As this gap is bridged, deals between private equity and family-run businesses will increase. Across Asia-Pacific, respondents showed their support for this view. For Southeast Asia, 82% of respondents expect deals between private equity and family-owned businesses to increase in the next 12 months (Figure 14). This comes as family conglomerates shed the belief that they will lose control of their business if they bring in outside investors – a trend that, while materializing, has considerable ground to cover as sellers become more sophisticated.

Hong Kong also stood out with 67% of respondents anticipating increased activity, citing Hong Kong's liberal and advanced investment environment, in addition to an understanding of the private equity model and its benefits. These companies have also adopted Western governance methods and are some of the most sophisticated business entities in Asia-Pacific, according to respondents.

Japan was least likely to see such an increase in investment with family-owned businesses, though by no fault of the companies themselves. Several respondents noted that while these businesses in Japan were in need of funding for growth or survival purposes, private equity preference remains fixed on more emerging and frontier markets.

“Aside from providing growth capital, private equity must prove its worth, displaying the best practices and expertise needed to help family-owned companies reach the next level. Private equity houses must also build their brand locally as one that is effective and creates value. More importantly, they need to emphasize that they will be in the market long term.”

Arnold Sun, Operations and Commercial Advisory Partner,
EY Greater China

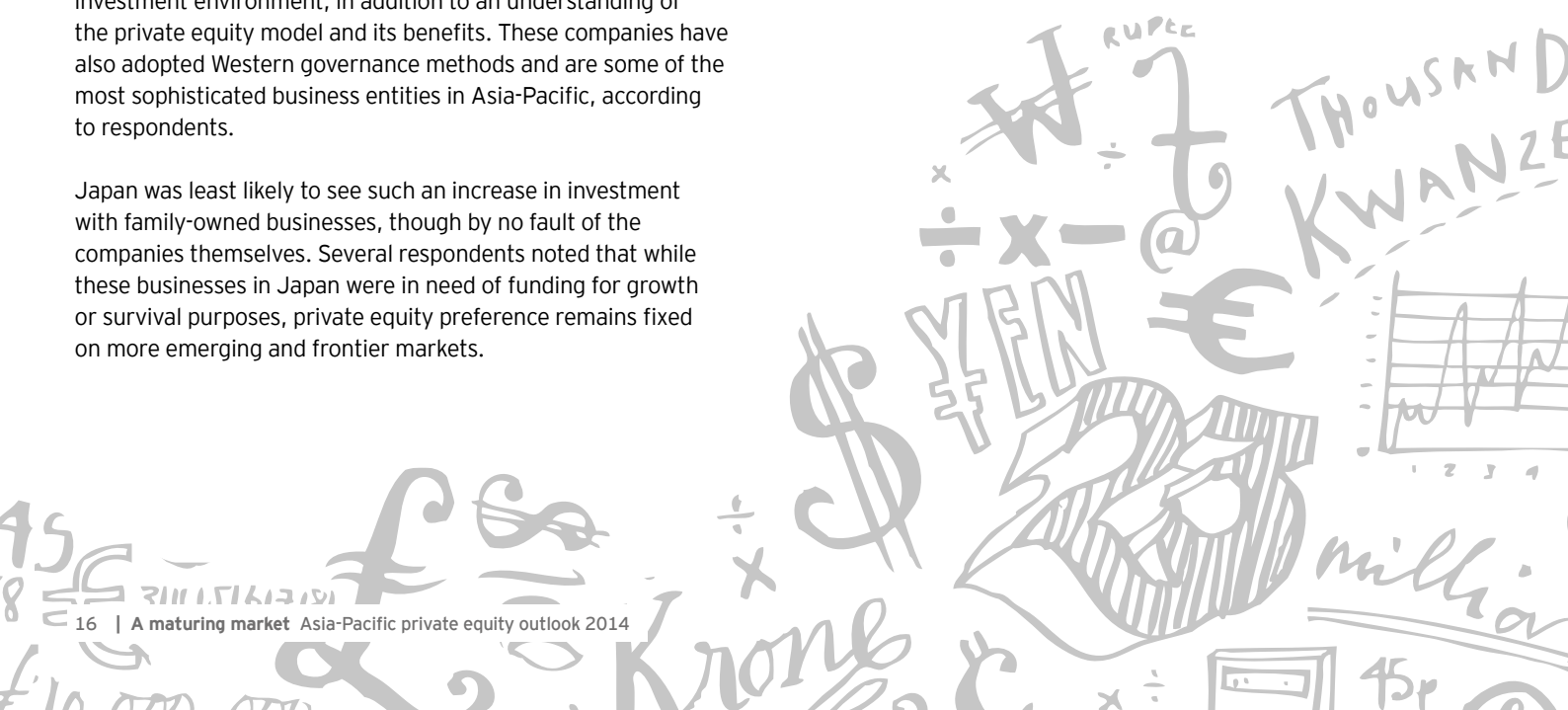
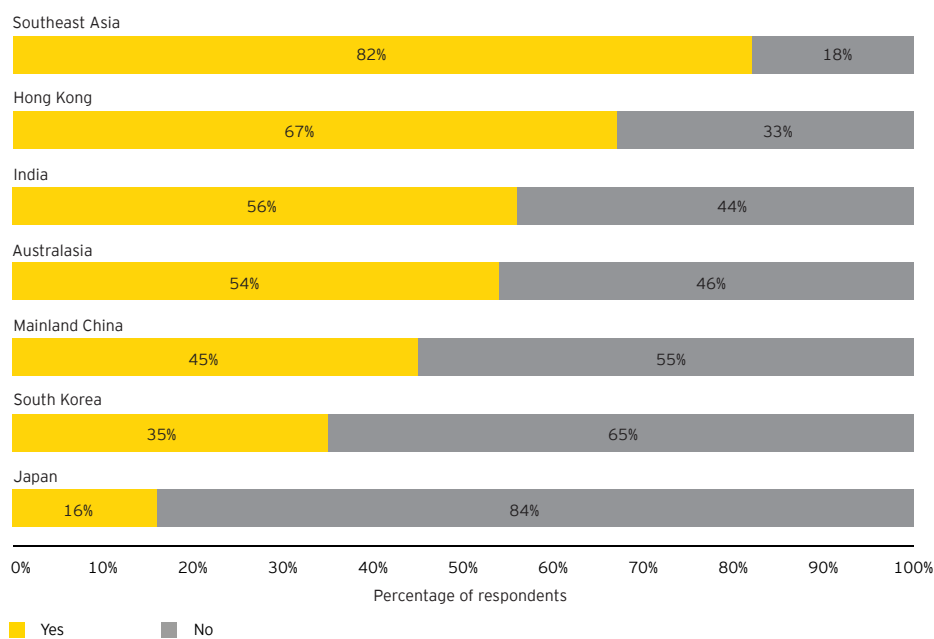


Figure 14: Do you think that PE M&A activity toward family-owned businesses will increase over the next 12 months?





Meet the family

Engaging local conglomerates across Asia

Family-owned businesses make up a large portion of the patchwork of enterprises across the region. Yet finding companies that are willing to embrace investment from an outside partner has proved challenging, due in no small part to a lack of awareness to the benefits of private equity. Before the search begins, GPs must understand the nuances of dealing with family businesses to build a lasting relationship with leadership at the target company and yield the returns they are looking for.

Building rapport

Deals involving family-run businesses are often very personal transactions. More than just companies with physical assets, these enterprises are family legacies and must be treated with a degree of delicacy not needed in other types of deals.

To ensure a successful transaction, establishing open lines of communication and developing a personal relationship with business owners will help allay concerns and create trust between parties. GPs should also be willing and ready to answer any and all questions business owners might have concerning the deal, the private equity firm's history and the eventual exit.

Engaging and interacting with family members of the business will also help GPs navigate the intricate web of ownership associated with these companies across Asia. This is particularly true of Southeast Asian companies, where the CEO or recognized leader of a company is not necessarily the final decision-maker.

Addressing control issues

Giving up control is never easy, and Asian business leaders may be even more reluctant to relinquish such control than their Western counterparts. In this sense, PE may be limited to minority investments as opposed to control buyouts. But, even these stake acquisitions must be addressed accordingly. Ensuring the family that control will remain in their hands will not only alleviate tension but allow GPs to maintain their influence over the decision-making process.

Opportunities for control acquisitions are, however, not entirely out of PE's reach. As part of a recently developing trend, private companies in China are meeting challenges surrounding succession issues. Entrepreneurs who started companies in

the 1980s are nearing retirement age, yet their offspring are unwilling to take up the reins of the family business. Faced with the inability to find alternative professional managers, many are turning to private equity for expertise and investment capital to fuel expansion and ensure the company's future.

Demonstrating value-add

Bringing in a private equity partner is less about cash and more about capability. More than just a deep-rooted understanding of the local market or a strategy for the company being approached, GPs must have a detailed track record of value creation in previous portfolio assets.

This is especially true of mature businesses, including many that have reliable cash flows but lack the expertise necessary to take their companies to the next level. Value-add could come in the form of demonstrating expertise in product sourcing, recruiting foreign talent, international expansion, regional markets and strategy, or in ways to strengthen the company's executive team or management. Operational and financial advisory from the PE investor can also be convincing tools for Asian business leaders.

Country profiles

Greater China

Private equity has seen a renaissance in Greater China over the past decade as foreign and regional firms clamored for market share. Now, homegrown firms are playing an active role, increasing in sophistication and becoming more confident as investors. As their track records improve, these local funds continue to attract institutional investor interest, whittling away at the larger market shares held by their foreign peers and adding a new level of competition to private investment.

Recent market conditions, depressed GDP figures and regulatory changes, however, continue to drive uncertainty. These, matched with challenges since an IPO freeze shuttered GPs' primary exit channel, are weighing heavy on fund manager and LP minds. However, despite these developments, changing internal structures as the country shifts from an export to a consumer-driven economy will help stabilize growth and sustainability.

Much of the Chinese government's 12th Five-Year Plan revolves around this shift to an economy led by consumption. Greater China's burgeoning middle class holds great potential and is creating widespread demand for consumables – demand that will be largely filled by small and medium-sized enterprises, many in need of capital injections to expand operations domestically, regionally and perhaps even globally.

Noting this trend, respondents said the consumer sector would be China's top investment destination in the year ahead. With retail sales of brand items, luxury goods and basic commodities growing in double-digit territory, an early entry now creates improved chances of a profitable exit within a few years. Likewise, China's luxury auto space has seen frenzied interest from private equity, including global giants KKR, as firms focus their attention on the Chinese consumer's appetite for high-end cars.

Investments in Chinese tech SMEs, many with expanding consumer bases and eager to make the leap up the value chain, are also anticipated. With the ubiquity of smartphones and mobile tech in Greater China, attention will turn not only to acquiring manufacturers of high-tech handheld gadgets but also to software designers and application developers. As smartphone penetration and mobile use rates continue to rise at impressive speeds, so too will competition among investors looking for the next big app company.

The energy, mining and utilities space also ranked among the top sectors likely to see PE investment in 2014, albeit at a much smaller percent than in previous years. This shifting trend comes as private equity focuses less on resources, a sector that comes with a number of obstacles and regulatory hurdles, and more on the consumer space.

Country expectations



90%

of respondents expect private equity activity in Greater China to **increase slightly or significantly**



Sectors

83%

of respondents said the consumer sector will see the most investment, followed by TMT (67%) and energy, mining and utilities (57%)



67%



57%

While government regulations have limited private equity investment to minority-stake acquisitions in certain sectors, and even as policy changes open the door for participation in distressed-debt investing and special-situation funds, the buyout space continues to see wider use. Since 2010, buyouts have remained largely stable, accounting for a large percent of Asia-Pacific's overall buyouts at 26%.

During that time, domestic private equity houses have begun to carve away at international investors' hold on the market, increasing their share of buyouts from 18% in 2006 to 45% in 2012. For the first half of 2013, domestic firms accounted for almost 69% of buyouts.

In value terms, figures have been less steady. While reaching peaks in 2009 and 2011, with deal value almost matching deal volume, average deal size has dropped from US\$232m in 2011 to US\$123m in 2012.

“In general, Greater China is still maturing as a market for private equity, although it has reached a level of maturity that is gaining attention. Funds from around the world have now developed a more profound understanding of the market. Investor sophistication, be it from foreign or local firms, in Greater China continues to improve. We’ve also seen the beginning of secondary funds coming into the market.”

Eva Ip, Private Equity Partner, EY Greater China



of respondents expect IPO opportunities to increase in 2014; 81% said the same about trade sales and 69% about secondary buyouts



Year	Transactions	Value
2013	45	US\$5.7b
2012	82	US\$10.1b
2011	83	US\$19.2b

India

The rupee's freefall to historic lows in the second half of 2013 has added to existing woes among foreign private equity houses. Going into 2013, international investors already faced shrinking economic growth and a substantial drop in IPOs. The Indian currency's decline has eroded the value of deals completed five years prior and stalled exit plans for many firms. Conversely, a depreciated currency could entice private equity money into action.⁵

As with other high-growth emerging markets, where middle-income groups are becoming active participants in driving domestic growth, the consumer and TMT sectors went hand in hand as the top target sectors for PE investment, according to 87% of respondents. Historically, the TMT sector has remained steady as a target industry with 9 deals in 2009, 12 in 2010, 11 in 2011 and 10 in 2012 according to Mergermarket data. The consumer sector, on the other hand, has risen the industry ranks to play a more important role in buyout activity, with no deals completed in the sector in 2009, but 11 in both 2010 and 2011 and 14 in 2012.

Buyout activity followed an upward trend in the years leading up to the global financial crisis, momentum that stalled but quickly rebounded to surpass pre-crisis levels, an increase of 133%. Since 2010, however, activity has declined, albeit slowly, from 98 deals in 2010 to 86 deals in 2012 (12%). India's portion of the PE pie for Asia-Pacific has also slid from 31% in 2010 to 28% in 2012.

Indian buyout activity comes largely from small deals, with average deal size between 2010 and H1 2013 at just US\$41m. Overall value, after increasing from US\$1.2b in 2009 to US\$5.2b in 2011, fell 26% in 2012 to US\$3.8b.

Similar to other jurisdictions in Asia-Pacific, domestic private equity houses have come to play an increasing role in India's private equity industry. Like other players in their respective jurisdictions, these local firms excel due to local connections and a distinct familiarity with the local investment environment, not to mention laws and regulations governing investment.

"Private equity is still developing a strategy for operating in India, but foreign and domestic firms are becoming more disciplined and sophisticated in terms of investing. Many oversights, such as a lack of adequate due diligence, are becoming a thing of the past."

Mayank Rastogi, Partner, Private Equity and Transaction Advisory Services, EY India

Country expectations



47%

of respondents expect private equity activity in India to increase slightly

Sectors



87%



80%



53%

87% of respondents said the consumer sector will see the most investment, followed by TMT (80%) and real estate (53%)

Exits



75%

of respondents expect IPO opportunities to increase in 2014; 61% said the same about trade sales and 45% about secondary buyouts



Buyouts

Year	Transactions	Value
2013	66	US\$2.3b
2012	86	US\$3.8b
2011	94	US\$5.2b

Australasia

As one of Asia's most mature markets, Australia offers investors the criteria they are looking for when making long-term capital commitments. Australia's robust economy was quick to recover from the financial crisis. Similarly, the regulatory and political environment offers a level of stability not seen in other Asian countries. New forms of capital, like special-situation funds, hedge funds and Canadian pension funds, continue to enter the market.

A broader tapestry of fund performance means private equity now has a more prominent record to capture the attention of institutional investors. However, as the fund-raising environment becomes more competitive, private equity firms will have to maintain a high levels of realized of returns to entice new and greater allocations from investors.

PE activity in Australia has been dominated by buyouts. With the Australian dollar depreciating, value propositions improved over 2013. Yet, even with a strong underlying economy and declining currency, buyout activity slowed, continuing a two-year trend from 2011. The trend is a statement of changing times: other investment destinations are reaching similar levels of maturity, providing equal or greater opportunities to invest.

Rich in natural resources, Australia's mining sector has been a driving force in the domestic M&A market. However, as the country's resource boom loses steam, the sector is facing challenging times as small and medium mining operators grapple with slowing investments and high costs. Short on financing and increasingly distressed, many are turning to private equity for financial support.⁶ Respondents also noted this trend, singling out the energy, mining and utilities industry as most likely to see PE investment.

The pharmaceutical and life sciences sectors are also likely to see activity in the year ahead. Advanced medical technology and a high level of innovation have created a positive framework for investment.

Across the waters, New Zealand had 11 transactions worth US\$126m in 2013. Figures for 2012 stood at 13 buyouts worth US\$231m. While a smaller market to being with, this relative dearth of investment, according to the New Zealand Venture Capital Association, is due to difficulties in finding investment-ready companies. Raising money for New Zealand-focused investment is not the issue – a lack of companies at a mature enough stage in their life cycle to entice private investment is causing private equity to look elsewhere.

"The nature of Australia is that despite its small population relative to other geographies in Asia-Pacific, there are still companies and acquisitions that can yield considerable returns. Similarly, a quality workforce and high level of innovation provide a positive framework for investment."

Bryan Zekulich, EY Oceania Private Equity Leader

Country expectations



78%

of respondents expect private equity activity in Australasia to increase slightly

Sectors



78%



44%



33%

78% of respondents said the energy, mining and utilities sector will see the most investment, followed by pharmaceuticals (44%) and consumer (33%)

Exits



13%

of respondents expect IPO opportunities to increase in 2014; 55% said the same about trade sales and 56% about secondary buyouts



Buyouts

Year	Transactions	Value
2013	38	US\$8b
2012	55	US\$6.1b
2011	61	US\$10b

Southeast Asia

In the last decade, high growth rates and changing government policies have allowed Southeast Asia to shed the image of economic volatility and political instability. This turnaround has fostered optimism among investors as GPs and LPs prioritize the region on their investment agendas.

Singapore continues to play a dominant role in the Southeast Asia private equity story. As the most mature market in the sub-region, the city-state serves as a hub for investment flows and a homebase for a growing number of international firms. Despite rising interest, buyouts from 2012 to 2013 remained largely unchanged: 11 worth US\$850m in 2012 and 10 worth US\$950m in 2013.

Malaysia has seen a number of regional funds spring up as investors look to tap neighboring markets. Malaysian companies are also warming up to private equity firms as they look to move away from traditional funding channels and accumulating debt and as IPO opportunities remain elusive.

Despite recent political instability, Thailand remains an attractive investment destination, albeit one that has taken a backseat to other markets in the subregion. In that same vein, however, the Philippines is moving onto investors' radars as stable politics translates into investor interest.

Indonesia is where the spotlight shines brightest. While the country found itself mired in a downturn as a result of currency volatility going in the second half of 2013, the fundamentals that have raised Indonesia's attraction – the increasing purchasing power of the country's middle class and government policies that continue to add value locally – remain intact. An uptick in activity is a possibility once the currency situation abates and after upcoming elections solidify the country's leadership and economic policy in the years to come.

Deal-making in Southeast Asia's frontier markets – Vietnam, Cambodia, Laos and Myanmar – has been limited as investors remain cautiously optimistic but hesitant to enter. Vietnam remains a relatively stressed market with the bulk of investment involves strategics or non-private-equity investors.

Myanmar has ground to cover before becoming a viable target for private equity. By some estimates, the country is where Vietnam was six or seven years ago: in need of infrastructure and internal structures to boost its profile. The influx of strategics building their market presence through joint ventures and other investments will help to catalyze a market boost, creating jobs, stimulating the economy and creating opportunities for entrepreneurs. These factors, along with the growing influence of the country's middle class, will set the stage for private equity's

Country expectations



95%

of respondents expect private equity activity in Southeast Asia to **increase slightly or significantly**



Sectors

80%

of respondents said the consumer sector will see the most investment, followed by TMT (70%) and financial services (40%)



70%



40%

arrival – a development that could take as long as a decade but has the potential to see activity on par with Indonesia in its early investment years.

As with other parts of Asia-Pacific, a growing middle class with increasing spending power continues to be a catalyst for growth. Across Southeast Asia, consumer demand remains buoyant for everything from smartphones and handheld devices to retail brands and household goods. In recognition of this trend, respondents agreed that the consumer and TMT sectors would factor heavily into PE activity in the year ahead. Since 2010, the consumer sector saw 16 buyouts valued at US\$2b, with 8 technology investments worth US\$600m. The financial services

space also saw notable activity – eight deals worth US\$1.3b – as the region's middle-income group creates demand for micro-financing and personal banking services.

While PE interest in Southeast Asia has piqued in recent years, buyout activity continues to play a marginal role. Despite high expectations, these acquisitions accounted for only 10% of overall Asia-Pacific buyouts in 2012 and 2013. This is happening for a number of reasons. Growth capital still makes up a large portion of private equity investment. Likewise, minority investments, not control acquisitions are the norm. Buyouts have been limited since many business owners in Southeast Asia are still looking for partners, not buyers, to help their companies expand.

“Southeast Asia is a diverse region and value shifts between the markets. In this dynamic environment, global and regional funds need to think about where to place boots on the ground, having a culturally diversified investment team, how to create the right partnerships to extend market reach, and where to spend time building rapport with potential investees.”

Luke Pais, EY M&A Leader for ASEAN



of respondents expect IPO opportunities to increase in 2014; 77% said the same about trade sales and 80% about secondary buyouts



Year	Transactions	Value
2013	21	US\$2.1b
2012	27	US\$6.6b
2011	35	US\$3.4b

Japan

Awash with mid-cap companies looking to expand abroad and a growing number of smaller businesses in desperate need of capital, Japan offers abundant opportunities to finance business growth or survival. New government policies under Abenomics are encouraging private investment in addition to relaxing monetary policy, actions that are expected to fuel deal-making.

Japan's main strength is in its high-tech industry, and the sector stood out as most likely to see private investment in the year ahead, according to 69% of respondents. The Japanese consumer space will also likely see such investment, said 62% of survey participants.

Many more companies across industries are trying to expand beyond Japan's borders as heated domestic competition forces companies to cede market share.⁷ Because of this, companies in the small to medium range are turning to private equity to fund outbound forays. At the same time, spinoffs and divestitures following corporate restructurings are creating opportunities to buy as Japanese strategics shed nonessential assets.

Such was the case of KKR's September 2013 acquisition of Panasonic's health care unit. The divestment allowed Panasonic to offload the non-core business and strengthen its balance sheet. The sale, aside from a record deal for KKR in Japan, was a symbolic victory for foreign private equity, which has typically been shunned by Japanese sellers.⁸ This could open the door for future buyouts by foreign private equity houses, as large firms typically search for larger deals with larger yields.

A number of foreign private equity firms have shown their intent to focus on Japan in the past year. In late July 2013, the Carlyle Group launched its third Japan-focused fund to raise US\$1b.⁹ KKR has also shown renewed interest in Japan, saying that a portion of its second Asia-Pacific fund worth US\$6b would be dedicated to Japan-focused investments.

"The mindset of Japanese corporates is gradually changing. They are developing a better understanding of the value private equity can bring."

Satoshi Sekine, Japan Private Equity Leader, EY Japan

Country expectations



31%

of respondents expect private equity activity in Japan to increase slightly

Sectors



69%



62%



38%

69% of respondents said the TMT sector will see the most investment, followed by consumer (62%) and pharmaceuticals (38%)

Exits



61%

of respondents expect IPO opportunities to decline in 2014; however, 44% said trade sales and 40% secondary buyouts would increase



Buyouts

Year	Transactions	Value
2013	28	US\$2.8b
2012	23	US\$5b
2011	41	US\$10.9b

South Korea

South Korea's private equity market has slowly grown since 2006, a trend illustrated by escalating buyout activity from 15 deals that year to 34 in 2013. The country's rising attractiveness comes as the gleam wears off Asia's other major investment destinations and as valuation gaps cause investors to deviate course from Southeast Asia. This climbing status has been complemented by the fact that South Korea stands out as a market where the ability to make control acquisitions means private equity investors can park larger investments in acquisitions.¹⁰ As such, promises of future deals and investment continue to be made from global PE firms and institutional investors.

As the attraction of the South Korean market continues to grow, domestic firms are likewise making deals and establishing track records of their own. Recent years have been marked by rising confidence and sophistication among Korean private equity firms, many looking to complete larger buyouts over minority acquisitions. These transactions have been led by MBK Partners' US\$1.6b deal to buy ING Korea Life Insurance in 2013. The deal, if it receives regulatory approval, will be one of the biggest private equity deals in the country since KKR's US\$1.8b acquisition of Oriental Brewery Co. in 2009.

By fund-raising, South Korean private equity firms are increasing their dry powder and raising substantially larger funds as they prepare to compete against strategic acquirers. Korean buyout firm MBK Partners, founded by Carlyle's former Asia president, has set out to raise

US\$2.25b for its third fund. Meanwhile, pan-Asian private equity firm H&Q Asia Pacific has set out to raise cash for its own third Korea-focused fund.¹¹

Rising optimism and ambitions among Korean private equity firms comes at a time when the country's strategic buyers have slipped into a cautious slump. New government policies discouraging cash-rich conglomerates, known in South Korea as chaebol, from expanding into new business areas domestically, causing many to focus on outbound acquisitions and leaving more deals open to private equity firms, are also serving to drive domestic firms to buy.¹²

Simultaneously, a number of medium-sized South Korean companies are looking to expand abroad, much in the same way that Samsung, Hyundai and others became international brands, and are searching for the financing and expertise to bring these ambitions to reality. These companies will play an increasingly important part of private equity investment strategies in South Korea, particularly in the consumer sector, which respondents anticipated would see the most private equity activity in the year ahead.

Acquisitions into the TMT sector are also expected in the year ahead, as South Korea's chaebol begin selling noncore assets. These divestitures will create numerous opportunities for private equity to invest in quality business units with proven worth. South Korea's advantages in handheld tech and design will also drive TMT-related acquisitions.

Country expectations



23%

of respondents expect private equity activity in South Korea to increase slightly

Sectors



77%



69%



23%

77% of respondents said the consumer sector will see the most investment, followed by TMT (69%) and financial services (23%)

Exits



23%

of respondents expect IPO opportunities to increase in 2014; 30% said the same about trade sales and 36% about secondary buyouts



Buyouts

Year	Transactions	Value
2013	34	US\$7b
2012	32	US\$4.5b
2011	39	US\$2.3b

Exits

Across Asia-Pacific, deadlines to make returns to investors are approaching. Investments made from 2006 to 2007 must be exited, and GPs are starting to feel pressure from investors after longer-than-anticipated waits. While conditions may be far from ideal, private equity firms are actively preparing for one form of exit or another.

Trade sales stand out as the most viable option given limited opportunities to exit through the region's capital markets. Even with the much anticipated reopening of mainland China's stock exchanges for public listing slated for January 2014, a hefty pipeline – almost 760 companies are awaiting clearance – has built up in the last 14 months. To list in China would require more waiting.

As such, respondents from their respective subregions across Asia-Pacific said trade sales to corporates would increase in the year ahead. This was especially true in Greater China and Southeast Asia, where 81% and 77%, respectively, said an increase in sales to strategics was likely.

For private equity firms in North Asia, the trade sale has risen as the preferred exit route over IPOs, a complex, time-consuming process that fund managers cannot afford to pursue, at least for the time being. In Southeast Asia, private equity firms have numerous opportunities to sell to cashed-out corporates looking to enter the burgeoning ASEAN market. Trade sales across Asia-Pacific have accounted for the largest portion of exits and have yielded the highest exit values since 2010 as global corporations eager to enter the market offer handsome premiums.

Respondent sentiment toward secondary buyouts was also hopeful, with survey participants across the region casting their vote in varying degrees: the highest was Southeast Asia (80% of respondents), and the lowest was South Korea (36%). While the sale of portfolio investments from one private equity firm would seem enticing – GPs generally invest only in profitable endeavors and employ a variety of value creation techniques to increase asset worth – these transactions have often left LPs wondering: why not exit through alternative means? Our own value creation studies have shown that returns from secondary deals are comparable to primary. Despite this, the result, as the

data shows, has been limited use of secondary buyouts in recent years, with the exception of 2012, the only year secondaries were not the least-chosen form of exit.

Despite tepid capital market activity, the IPO as an exit option remained strongly within PE's periphery. Respondents said IPOs, especially in emerging markets such as Greater China, Southeast Asia and India, would increase in the year ahead. Although the China Securities Regulatory Commission has been reforming the share listing system and broadening information disclosure rules, and with China set to lift its 14-month freeze on public listings, uncertainties still loom large as to the effectiveness of these changes.¹³

“Investors in Asia are unwilling, or unable, to wait for IPO opportunities to return. This comes despite the announcement that mainland China's capital markets will reopen as soon as January 2014. Because of this, what we’re seeing is GPs turning away from IPOs and following the US or European PE model of doing deals with corporates.”

Ringo Choi, EY Asia-Pacific IPO Leader

Conclusion: Signs of maturing

As the Asian market continues to evolve, PE professionals must be ready to move. Changing regulations are giving GPs more maneuverability in the region's emerging markets. As entrepreneurs and family owners realize the benefits of partnering with PE, opportunities to provide funding and expertise to a large population of SMEs will become more abundant. Increasing use of secondary buyouts to exit portfolios shows growing sophistication among buyers and sellers in the PE community.

Yet Asia-Pacific remains largely under-penetrated by private equity, especially in Greater China and Southeast Asia. This comes as competition from other firms and strategic buyers for an already low number of high-value targets heats up in emerging markets. Foreign private equity firms have yet to develop sound practices for navigating the business environment. Likewise, sellers are valuing their companies at premiums that PE is unable, or unwilling, to meet.

The views from respondents this year provide a new look into these trends. Combine this with EY's regional expertise and a vivid picture of Asia's investment landscape appears, highlighting the prospects for PE and the obstacles investors will face going forward. These views have become particularly relevant as the Asian market matures, mirroring in many ways the structure and strategies of PE in Western markets.

Despite these changes, the general consensus among EY and industry leaders is that there is still considerable room for improvement before PE in Asia reaches the next level. PE practitioners will have to develop tailor-made tactics for entering each market, finding targets and meeting with management. Until control buys become more common, PE must find ways of creating value through their minority stakes and, more importantly, eventually exiting those investments.

For these reasons, EY remains focused on Asia. Complementing this comprehensive outlook for the year ahead, EY provides fresh insight on the region's development and the tactics needed to yield returns and create value. While 2014 will see its share of challenges and risks, both macroeconomic and jurisdiction-specific, private equity stands poised for another year of growth and discovery in Asia-Pacific.



Methodology

Over July and August 2013, Remark, the events and publications division of Mergermarket, canvassed the opinions of 50 private equity investors (GPs), 30 institutional investors (LPs) and 20 private equity investment bankers, all based in Asia-Pacific, on a number of extant topics related to private equity activity. All responses were collected confidentially and are reported in aggregate.

For certain survey questions, respondents may have selected more than one answer choice. In these cases, the total percentage of respondents will not total 100% per category.

Historical data includes all Mergermarket-recorded transactions for 1 January 2003 to 31 October 2013 unless otherwise noted.

Transactions with a deal value greater than US\$5m are included. If the consideration is undisclosed, deals are included on the basis of a reported or estimated value of over US\$5m. If the value is not disclosed, deals are included if the target's turnover is greater than US\$10m.

Only completed and pending merger and acquisition deals are collated. Where the stake acquired is less than 30% (10% in Asia-Pacific), the deal is included only if its value is greater than US\$100m.

Transactions such as restructurings in which shareholders' interests in total remain the same are not collated. Mergermarket does not track property deals, letters of intent, memorandums of understanding, heads of agreement or non-binding agreements.

According to Mergermarket, and for the purposes of this report, an Asia-Pacific buyout is defined as a deal in which the target business is predominantly located in any country in Asia-Pacific and at least one bidder operates predominantly as a private equity house. An Asia-Pacific exit is defined as a deal in which the business being sold is predominantly located in any country in Asia-Pacific and at least one seller operates predominantly as a private equity house.

All data quoted is proprietary Mergermarket or EY data unless otherwise stated.



Endnotes

- 1 Data for 2013 is up to date as of 28 October 2013.
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- 3 "With few big deals, private equity moves to be Asia's new bankers," Reuters, 5 August 2013.
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About Mergermarket



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Mergermarket is an unparalleled, independent mergers and acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.



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