AVCJ
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Feel the intensity

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Burden of compliance

ALTERNATIVES FUND MANAGERS HAVE a mountain to climb, but they are confident of reaching the summit. This, broadly speaking, is the conclusion drawn from State Street's recent global manager survey, in which the regulatory obstacles facing the industry are writ large.

While 85% of respondents said they were concerned about the costs of impending regulation – notably the Institutional Limited Partners Association's private equity principles and Europe's Alternative Investment Fund Manager Directive (AIFMD) – three quarters believe they can meet the challenge. Indeed, some already taking action.

Looking at the PE respondents specifically, nearly 60% said their primary area focus in terms of transparency is alignment with industry standards. Two in five report more frequently to LPs on investment holdings compared to five years ago. A similar number also provide more information on holdings, risk and performance, while one in five respondents said they planned to introduce this change over the next five years.

No separate breakdown for the Asia-based managers was available, but anecdotal evidence suggests they are under similar pressures to their global counterparts. What can be questioned, however, is these managers' ability to respond to the challenges, particularly among the smaller players.

The costs that come with greater regulation are in a large part technological. A call from investors for greater transparency around risk and performance is essentially a demand for more portfolio information on an increasingly regular basis. This information is to be delivered in common formats and stored on cloud-based platforms, allowing automation and integration.

When making these demands, LPs can count on three factors that weren't necessarily in their favor before. First, the fundraising environment is challenging, which means investors have more leeway – and scope for making requests – while considering potential commitments. Second, ILPA has created a starting point for negotiations through its template documentation covering GP-LP communications on capital calls, distributions, quarterly reporting and due diligence.

Third, vendor-agnostic technology platforms now exist to facilitate this exchange of information. These include the AltExchange Alliance, was set up earlier this year by a group of LPs, GPs and service providers, which validates documents conform to previously agreed formatting and disclosure standards.

For Asia fund managers, the issue is not whether they should embrace this automated approach – common reporting standards suggest the GP will no longer have to create customized versions of each document for different LPs – but the level of cost and change associated with it.

In some cases, the finance team currently amounts to a couple of people equipped with a $100 accounting software package and a pile of Excel spreadsheets. Data points are calculated and a report is supposed to be circulated among LPs within six weeks of the quarter ending.

Providing information more frequently – several industry participants see private equity following in the footsteps of hedge funds, which made the transition from quarterly to monthly reporting – requires investment in technology and the people to implement it. In-demand GPs may still be able to set their own terms, but those in the middle of the park who fail to comply are likely to find it harder to raise capital from major institutional investors.

It puts particular pressure on an Asian GP that wants to broaden and deepen its LP base between Fund II and Fund III, for example.

Transparency is the most significant driver of change in the industry, survey respondents said, helping managers differentiate themselves from the crowd; meanwhile, performance and fundraising are by some distance seen as the biggest challenges. These phenomena are of course interlinked.

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NEWS

AUSTRALASIA

PE-backed OzForex plans targets $413m IPO

OzForex Group - an Australian online foreign exchange services provider backed by The Carlyle Group, Accel Partners and Macquarie Group - plans to raise A$440 million ($413 million) in its Australian IPO scheduled for October 11.

Ironbridge alters LP secondary exit proposal

Ironbridge Capital's LPs will not be obliged to commit capital to a new fund as a condition of participation in a vehicle set up by the Australian GP to absorb assets held by its first two funds. AVCJ understands that the proposal has been amended so existing investors have the option of rolling over their equity or exiting, with the new fund raised independently of this activity.

Wolseley exits magazine publisher to trade buyer

Wolseley Private Equity has completed its second exit in a month with the sale of Australian magazine publisher nextmedia to Forum Media Group. The company was created in 2008 when Wolseley partnered with CEO Dave Gardiner and Commercial Director Bruce Duncan to buy four family-owned publishing businesses.

ACSI names Future Fund executive as new CEO

The Australian council of Superannuation Investors (ACSI) has appointed Gordon Hagart, head of environmental, social and governance (ESG) risk management at Future Fund, as its new CEO. Hagart will take over from Ann Byrne who will retire from the A$100 billion ($93 billion) at the end of October after five years at the helm.

GREATER CHINA

Shareholders approve Shuanghui-Smithfield deal

Shareholders of US pork producer Smithfield Foods have approved the company's $4.7 billion acquisition by its PE-backed Chinese counterpart Shuanghui International. The transaction, valued at $7.1 billion including debt, is expected to close by September 26. Smithfield will continue to operate under its existing brand names as a wholly-owned subsidiary of Shuanghui.

VC-backed Montage raises $71m in US IPO

Montage Technology Group, a China-based semiconductor manufacturer backed by AsiaVest Partners and Intel Capital, saw its stock jump 28% to close at $12.80 on its first day of trading on NASDAQ. It is the second PE-invested Chinese company to go public in the US this year. Montage's IPO raised $71 million after pricing at $10 per share - below the indicative range of $12-

14. The company set its IPO terms in September, planning to sell 7.1 million shares to raise up to $99.4 million.

Intel Capital and AsiaVest Partners made partial exits – the former sold 265.6 million shares, reducing its stake from 10% to 7%, while the latter exited just over 1 million shares, taking its holding from 19.2% to 11.5%. AsiaVest Opportunities Fund IV, Intel Capital, Shanghai Hua Hong, Silicon Federation and a number of individual investors committed $10.5 million for a 20% stake in Montage in June 2006.

Montage produces analog and mixed-signal semiconductor solutions for the home entertainment and cloud computing markets. Its products are often used in set-top boxes, optimizing broadcast signal processing, and in memory-intensive server applications.

Goldstone to end US dollar fund, continue RMB fund

Goldstone Investment, the direct investment arm of China's CITIC Securities, is likely to discontinue its US dollar-denominated fund but the firm will remain active on the renminbi side. The change comes in the wake of CEO Yibing Wu's departure to become China head of Temasek Holdings.

MSPEA's Yongye take-private gets board approval

A $339 million management buyout offer for Yongye International, supported by Morgan Stanley Private Equity Asia, has won board approval. The US-listed Chinese animal and plant feed maker is now set to be taken private, pending a shareholder vote. Abax Global Capital, part of the consortium when the original bid was submitted, is no longer directly involved.

PE-backed Cheniere Energy Partners files for IPO

Cheniere Energy Partners (CEP) - a subsidiary of Cheniere Energy, a US liquefied natural gas (LNG) company backed by Hong Kong's RRJ Capital and Blackstone credit arm GSO Capital - hopes to raise as much as $690million through an IPO on the New York Stock Exchange. Blackstone is said to have brought in China Investment Corporation (CIC) and GIC Private as part of its investment.

Fosun, Axa's Club Med takeover delayed

Axa Private Equity and China's Fosun International have suffered a setback in their takeover of France-based vacation resort operator Club Méditerranée (Club Med), as French regulators decided not to rule on shareholder opposition to the deal before mid-March next year.

Hony among first to set up in Shanghai FTZ

Hony Capital was among the first batch of companies to be awarded licenses to operate in Shanghai's new free trade zone. John Zhao, Hony's CEO, said the Shanghai FTZ will be beneficial for cross-border investment. It will be a crucial place for China's experiments in financial reform and market opening, as well as in establishing market-oriented systems, he added.

Shining Capital leads $40m JustFab Series C round

Hong Kong-based Shining Capital Management has led a $40 million Series C round of funding for US-based fashion subscription e-commerce retailer JustFab. Existing backers Matrix Partners, Rho Ventures, Technology Crossover Ventures and Intelligent Beauty also participated.

Alibaba acquires VC-backed cloud computing Kanbox

Alibaba Group has agreed to buy Kanbox, a Chinese cloud storage service provider backed by Susquehanna Asia Investment and DCM. Alibaba said it hopes to turn Kanbox to a mobile cloud storage service, allowing users to back up their mobile data, such as contacts and text messages, on remote servers.

Macquarie hires 3i's Paul Su in China

Macquarie Capital has named Paul Su, former senior director at 3i Group, as senior managing director and chairman for Greater China.

NORTH ASIA

Panel advocates pension system alternatives shift

A Japanese government-appointed advisory panel has suggested that the country's JPY160 trillion ($1.6 trillion) public pension system - which includes the JPY120 trillion Government Pension Investment Fund (GPIF) - reallocate a portion of its holdings from government bonds to higher-return assets such a real estate and private equity. A final version of the panel's preliminary report is due out later this year.

Japan's Lixil acquires TPG-backed faucet maker Grohe

Lixil Group, a Japanese toilet manufacturer, has agreed to acquire Grohe, a German maker of faucets backed by TPG Capital and the private equity arm of Credit Suisse (formerly CSFB Private Equity), for JPY400 billion ($4 billion). The company will contribute about JPY130 billion in equity to the transaction, with Development Bank of Japan (DBJ) putting in JPY50 billion.

Ant Capital invests $11m in Kozo Keikaku

Ant Capital Partners has agreed to acquire a 30.4% stake in Japan-listed construction software developer Kozo Keikaku Engineering from existing shareholders for JPY1.15 billion ($11 million). Ant Capital bought 17,608 shares via Ant Bridge No.3, a JPY11 billion vehicle.

SOUTH ASIA

WL Ross settles with SEBI over SpiceJet case

WL Ross has paid INR11 million ($177,000) in a settlement with the Securities and Exchange Board of India (SEBI), ending a long-running case over its investment in low-cost Indian airline SpiceJet. The PE firm acquired a 30% stake in the carrier in August 2008 for $80 million before exiting two years later to Sun Group, which now holds a 52.14% stake in the business, for $127 million.

KKR acquires Panasonic healthcare unit for $1.67b

KKR has agreed to acquire an 80% stake in Panasonic Healthcare, a unit of the Japanese electronics giant, for JPY165 billion ($1.67 billion) - the buyout firm's biggest deal in the country to date. Panasonic Healthcare claims to have the leading global market share in the manufacture and sale of blood glucose monitoring meters and sensors for diabetics. Meanwhile, its Medicom business has the top market share in Japan for medical receipt computers, electronic health record systems and other IT equipment for medical clinics. The unit generated JPY8.7 billion in operating income and JPY134.3 billion in sales for the financial year ended March.

Panasonic will continue to hold 20% of the healthcare unit and cooperate with KKR in the management of the company with each leveraging their respective business resources.

"Looking ahead, we aim to accelerate growth by building out our global sales channels to major overseas healthcare facilities, aided by KKR's overseas network, and delivering to customers around the world an enhanced range of products and services," said Panasonic Healthcare President Kenji Yamane.

India eases offshore listing rules

India companies will be allowed to pursue IPOs overseas without first listing domestically in a move that should please private equity and venture capital investors looking for alternative exit routes. According to the Ministry of Finance, the scheme will be implemented on a pilot basis for two years and then reviewed.

SOUTHEAST ASIA

Khazanah invests in Beijing Enterprises Water Group

Mount Reskit Investments, a unit of Malaysia's Khazanah Nasional, plans to invest HK$1.18 billion ($152 million) in Beijing Enterprises Water Group. Upon completion, it will hold a 4.95% stake in the state-owned water treatment system operator, becoming the third biggest shareholder. The company will issue 400 million new shares to Mount Reskit at HK$2.95 apiece.

Abraaj exits Philippines hospital DMMC

The Abraaj Group has made a full exit from Daniel O. Mercado Medical Center (DMMC), a tertiary care hospital based in the Philippines. The exit is said to have been through a buy-back arrangement with the Mercado family. The original investment in the company was made in 2011 by Aureos Southeast Asia Fund I (ASAF I), a $91 million vehicle run by Aureos Capital.

Malaysia launches $100m clean tech fund

Malaysia has teamed up with Japan-based Asian Energy Investments to form a $100 million venture capital fund to invest in clean technology in South East Asia. Known as Putra Eco Ventures, the fund will target small to medium-sized companies and technologies in the wind, solar or tidal energy spaces.

KPCB, IPV back Singapore stock market app

Kleiner Perkins Caufield Byers (KPCB) and IPV Capital have together led a $10 million Series A round for MyHero, the Singapore-based start-up behind the stock market simulation app TradeHero. The app uses real-world stock market information to allow users to practice stock market trading using a virtual currency.

Singapore government to support start-up ecosystem

The Singapore government will pump an extra S$50 million ($39 million) into its early stage co-investment vehicle in a bid enliven the city state's start-up ecosystem. Deputy Prime Minister Teo Chee Hean said the government would increase its commitment to the Early-Stage Venture Funding Scheme (ESVF), which operates under the National Research Foundation (NRF).

Khazanah hires CIMB's Charon as exec director

Malaysian sovereign wealth fund Khazanah Nasional has appointed Charon Wardini Mokhzani as executive director in the managing director's office. Charon is currently deputy CEO of CIMB Group, head of investment banking and CIMB Investment Bank chief.

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Hunters, not farmers

The ideal private equity portfolio company CFO is a rare creature in any market. Asia presents its own challenges in terms of recruiting appropriate talent and the issues this person must address

"MANY TIMES AS A CFO YOU ARE THE smartest finance guy in the room," says Chris Roling, who filled the role for a number of companies before the work led him into private equity, with Terra Firma and then Aureos Capital. "The problem is once you have a PE firm as an investor you have a lot of smart finance guys so there is no room for fudging, which brings its own stresses and challenges."

The private equity executive who completed the deal and sits on the board is not the only stakeholder whose interests a CFO must look out for. LPs increasingly come in as co-investors, the board may also include independent advisors, and the PE firm might have put in an operating partner to work with management on a day-to-day basis.

These different constituencies have their own priorities and timetables. Industry participants agree it contributes to the "sense of urgency" that pervades private equity ownership and not all CFOs are suited to, or care for, the environment.

If, as is often the case, the incumbent financial officer is moved out post-transaction, the replacement comes in knowing that his tenure is likely only as long as the private equity holding period and specific goals must be met in order to deliver the desired return on exit. It means investing to generate growth while simultaneously keeping an eye on the cash pile, which might be required to pay down debt.

The ideal candidate is therefore competent in financial accounting, reporting and tax, but also sufficiently commercial and multi-faceted to grasp the business model as whole, while possessing the confidence to manage up and manage down.

Every PE owner wants a CFO with years of experience who can mind the store. However, they also demand a hunger and entrepreneurial bent that doesn't necessarily come as part of the bean-counter package.

"I can probably place as many really good PE portfolio company CFOs as I can actually find them across Asia," says Alice Au, regional private equity practice head for Spencer Stuart.

Tim Sims, co-founder and managing director of Australian GP Pacific Equity Partners, concedes that the position can be the most underestimated and least well-filled position in a company, whether private equity is involved or not. "Everyone understands the CEO role and how demanding it is – the buck stops with the CEO," he says. "The CFO role is often underestimated in terms of how much responsibility it involves and the potential for value add."

Right man, right time

The type of individual required varies according to the target company's situation and geography. In general terms, Michael Di Cicco, a partner at Heidrick & Struggles in Singapore, describes the archetypical portfolio company CFO as "more hunter than farmer," drawing a contrast with the traditional corporate CFO who is usually judged over a longer period of time.

The crux is that in a PE situation the CFO is tasked with guiding a company through a period of transformation that presents particular challenges. When the focus is on growth, the PE investor would want an individual experience in M&A and corporate finance. If the ultimate objective is an IPO, an ability to negotiate with investment bankers and interact with potential investors during the road show comes into play.

These factors impact where a PE investor or executive search firm looks for the appropriate person. According to May Tung, head of the financial services practice at DHR International, a classic sweet spot is executives with 15-20 years of experience under their belt who are looking for a final or penultimate posting.

It is not unusual for the country CFO of multinational in Asia, for example, to seek a change of direction. The motivation is not purely financial but could be tied to a desire for compensation that is more closely linked to performance: While an incoming PE portfolio company CFO may not see a significant bump in basic salary – they might even have to make sacrifices in terms of allowances – the kicker is equity participation in the business.

Comparable listed companies are an obvious port of call, but anyone who has experience relevant to the particular industry or situation could feasibly come under consideration. It also works the other way around with certain executives actively pursuing positions with PE-backed companies to fill gaps in their resumes.

Roling recalls hiring an individual for an Aureos-invested firm in Thailand because he wanted to do an IPO and regarded the experience as important as the pay day. The best person for the job is often "a CFO who wants to be more than just a CFO," he says.

A CFO might be dragged into all kinds of different functions, but if there is one common requirement it is an ability to manage cash and optimize working capital. This is especially pertinent in distress situations and a cottage industry of specialists offering interim CFO

Company management's average equity share in US private equity deals

	Equity grants as % of fully diluted shares			
	25th percentile	50th percentile	75th percentile	% of CEO award (50th percentile)
CEO	1.50%	2%	2.60%	-
No.2 executive	0.70%	1%	1.80%	42%
No.3 executive	0.50%	0.70%	1.20%	36%
No.4 executive	0.40%	0.60%	0.90%	30%
No.5 executive	0.30%	0.50%	0.80%	22%
Sub-total top 5	3.40%	4.90%	6.80%	
Top 5 as % of share reserve	45%	47%	63%	
Pool reserved for future grants	15%	21%	25%	
Employee receiving grants	16	27	30	

Source: PricewaterhouseCoopers

services – the likes of AlixPartners, Alvarez & Marsal (A&M) and FTI Consulting – exists to meet these needs.

For James Dubow, managing director and co-head of Asia at A&M, an interim placement with a Chinese power company in 2007 turned into a five-year permanent position. When a new PE owner arrived the incumbent CEO, CFO and business development head all unexpectedly decided to leave, so A&M was hired to stabilize the situation. The company wanted to find a more permanent candidate but no one suitable emerged, while the external environment worsened as the global financial crisis hit.

"Even when I agreed to stay on they wanted someone who was more Steady Eddie but it became apparent that the Steady Eddie period wasn't coming," says Dubow. "It was constant change and stress, whether internal or external."

The emerging Asia angle

This example serves to highlight the range of demands that can be placed on a CFO, particularly in Asia's emerging markets where target companies are often less mature and lack strong financial processes and the pool of available talent that can address this is not deep.

"In the US or Australia, you have a range of issues you face when you go in as a financial controller from A to F," says Jim Tao, managing director at China-focused CITIC Capital Partners, where he is responsible for the portfolio operating group. "In China it's A to Z. Something that is taken for granted in the West isn't done at all in China. Some companies are so rudimentary."

Issues range from irregular practices – companies have been known to run their finances through personal bank accounts – to outright fraud. In situations untainted by malfeasance, there is still a need to introduce better reporting channels and budgetary processes.

When CITIC Capital and Warburg Pincus took a majority position in Harbin Pharmaceuticals in 2005, they found a company that was spending four times its annual net income on television commercials and investing in a portfolio of 100-plus products, many of which didn't make any money at all. Furthermore, each subsidiary maintained its own finances, which meant that profit-making businesses were receiving low interest returns on bank deposits while loss-making units paid heavy premiums to borrow money.

Centralizing Harbin Pharmaceuticals' financial structure meant facing down resistance from managers desperate to hold on to power. This kind of change is difficult to bring about without full operational control, which often means having a CFO on the ground. If CITIC Capital finds a situation that can't be remedied in this way, it may simply pull out of the deal.

"We looked at an agricultural deal based in a fifth-tier city and it was run entirely on cash transactions. Even if we have 100% control, how could we find someone we trust, with international standards, to live among the farmers? If you only fly in every other week then you don't have full control," says Tao. "We had it on paper but we didn't have it in reality."

Roling experienced similar challenges when placing CFOs with Aureos portfolio companies. The GP was making minority investments throughout the region, often in less developed markets, and insisted on the right to appoint the CFO or at least veto the majority shareholder's choice. The tendency was to send in locals who could broach language and cultural issues, but there was no guarantee of acceptance.

"If you are majority you have a more of a mandate and a bigger stick, if required. With a minority position you might not have all the decision-making ability," he says. "At Aureos half the companies were family-owned so it was a question of whether the CFO would fit in and become part of the inner circle."

One of the difficulties is finding an individual who can bridge between family ownership and institutional ownership from a skills perspective. The premise of a private equity firm's investment is often achieving exponential revenue growth and scale, but it requires a CFO willing to get his hands dirty fixing the accounts and then support strategic expansion. An executive has to be comfortable building a small company into a big one, and the equity-based portion of compensation packages rewards that.

With this in mind, private equity executives routinely cite their own networks when asked where they first look for a CFO. Someone who is has been an effective portfolio company CFO in the past would likely be so again.

The CFO of Harbin Pharmaceuticals was with another CITIC Capital portfolio company before her current posting and an operating partner with the firm before that. I.S. Lin, who served as CFO at Australia-based auto parts firm Exego before Unitas Capital exited the business earlier this year, previously performed the same role at South Korean retailer Buy the Way, another former Unitas portfolio company.

Heidrick & Struggles' Di Cicco notes that there is increased demand not just for CFO-type work but for operating partners who come in pre-investment and participate in planning and due diligence, which may lead to a formal posting with the portfolio company in question.

Those with the resources, meanwhile, simply take on more expertise in house. After selling Exego, Unitas hired Lin as an operating partner with a specific brief to help develop portfolio company CFOs.

"Even if there is a strong CFO at an existing portfolio company, they might not be experienced in working with PE firms or have experience supporting significant operational changes," says Eugene Suh, Unitas' chief investment officer. "Having an in-house CFO who has done this before can help mentor these CFOs and help them to better support operational transformations."

Incremental improvement?

When asked why CFOs frequently change when a private equity investor comes on board, industry participants say they need to be certain that a company is being run in a transparent and efficient manner and complying with international standards and best practice. Yet the implication is that the incumbent officers are generally not up to the job.

One buyout fund manager puts it more bluntly: "You may conclude from the relatively high turnover rate with private equity that it's difficult being a portfolio company CFO. The truth is the system cannot afford not to have a competent CFO and the existing ones often don't have that level of competence."

While the ideal specimen remains hard to come by and a degree of compromise is inevitable, recruitment is becoming slightly easier as Asia's talent pool fills out.

CITIC Capital's Tao targets candidates who have spent 10 years with a multinational and 10 years with state-owned or private enterprises in China because this means they have experienced the transitions the PE firm's portfolio companies tend to go through. It might be difficult to persuade an individual to relocate to a third-tier city in the country's far west but foreign companies have now been operating in China for more than two decades so appropriate people are out there.

Nevertheless, private equity firms will continue to return to known acquaintances simply because of the comfort of familiarity. A&M looks for people with similar qualities to the identikit private equity CFO and Dubow recalls hiring an executive last year who came into a company once A&M's interim remit expired. The executive spent 3-4 months in the job before the company was sold.

"We had been able to watch him at work and we liked what we saw. It's very hard to pick someone out at interview," Dubow says. "You need someone who can come in and be a leader in a room full of bankers, executives or private equity and have a view. That is really the personality part and it is hard to find this type of CFO in some parts of Asia."

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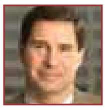

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MSPEA completes quiet Korea acquisition

MORGAN STANLEY PRIVATE EQUITY Asia's (MSPEA) investment in Ssangyong C&B and Monalisa is like an iceberg: only one sixth was immediately visible. When the deal was first announced earlier this year, the information disclosed concerned a South Korean listed entity, Monalisa Seoul. The PE firm paid KRW91.4 billion ($84.2 million) for a 66% stake in the business.

In actual fact, the transaction – which recently closed – involved five unlisted entities as well: tissue paper manufacturers Ssangyong C&B and Monalisa Daejeon, and then three ancillary companies in the logistics, raw materials procurement and sales personnel management spaces. MSPEA took full ownership of each of these from CEO Kwang-ho Kim.

"The only public information was on the listed entity, so it appeared to be a $80-90 million deal, but the entry valuation was $215 million," a source familiar with the transaction told AVCJ.

There was good reason for the low profile. Kim was considering retirement, and in the absence of a natural heir, he wanted to explore sale options – but away from the spotlight that inevitably follows an auction process. This was in part due to concerns that if news of a Ssangyong-Monalisa sale emerged, unionized workers could use it as leverage.

MSPEA was helped by its familiarity both with the paper business and with owners who like a quiet sale process. The PE firm acquired Jeonju Paper in 2008 and then in 2011 bought restaurant chain Nolboo from an owner with a succession planning issue and a desire for privacy.


Tissue paper: Growth in Korea

Kim accumulated the different pieces of his tissue business over a 15-year period – Ssangyong C&B, for example, was previously owned by Procter & Gamble, while Monalisa Seoul came by way of court receivership and legal management. Together these assets are Korea's largest tissue products manufacturer by production capacity and sales volume, and second-largest by revenue; Yuhan Kimberly takes top spot thanks to the higher average selling price for brands such as Kleenex. However, Yuhan-Kimberly's market share has been gradually falling, in part due to an increased focus on feminine pads and baby products.

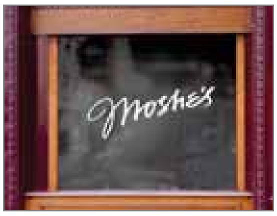
Based on Ssangyong C&B-Monalisa's 2012 consolidated EBITDA of $35 million, MSPEA's entry valuation was around 6x, a substantial discount to Monalisa Seoul (10.5x) and comparable companies (12.4x). The PE firm has restructured the group under a single holding company and brought in new senior management, including a CEO who formerly held senior positions with LG Household & Healthcare's joint venture with Unicharm and P&G Korea.

The next step will likely see the launch of new products, particularly in higher margin premium segments and in verticals that remain underpenetrated. The Korean tissue market has seen compound annual growth of 9.5% over the past five years yet per capita tissue consumption is 9 kilograms, compared to 14 kg or higher in Japan and Taiwan.

NSR has an appetite for Moshe's

"THE TYPICAL INDIAN FAMILY stereotype today is different to that of my parents' generation," says Parag Saxena, founding general partner and CEO of New Silk Route (NSR). "Back then my mother would cook the meals and keep the house running while my father brought in the money – but that has changed."

Change has been faster in cities where more women are entering the workforce, creating more dual-career households. As a result, many women – whose jobs are often equally demanding as those of their husbands – are no longer responsible for the meal, meaning more families are eating out.



Moshe's: Part of the NSR family

This one of the trends, along with a growing middle class and increasing disposable incomes, that has led NSR to purchase Moshe's Fine Foods, its second investment under a broader plan to build its own domestic casual dining platform in India: Gastronomy Management Services (GMS). For NSR, GMS is a means of acquiring several brands which can then be scaled up by managing several functions – such as HR and real estate – together.

"In India, scale is one of the biggest management problems to overcome," says Saxena. 'We found many small chains with perhaps 10-15 stores, but we couldn't find a single brand that we could multiply substantially, so this is what we pursued."

The platform is comparable to the models used by Yum Brands in the US – owner of Pizza Hut, KFC and Taco Bell – and Jubilant FoodWorks, the Indian franchisee for Dominos Pizza and Dunkin' Donuts.

NSR has allocated $100 million for its food and beverage strategy, which began last year with an investment in Vasudev Adiga's, a Bangalore-based chain that specializes in south Indian cuisine. This followed a two-year period spent looking for targets, in particular restaurant chains which could offer the broadest amount of appeal.

Moshe's had fit this mould. Founded in 1988 by chef proprietor Moshe Shek, the chain operates seven cafés, two restaurants and one takeaway in Mumbai offering Middle Eastern and Mediterranean foods.

According to Saxena, Shek had been looking to pass on some of the responsibility for the business in order to focus on his first passion. "For Mr. Moshe it represented a good solution, he could stay on and continue doing what he loves, designing menus and picking out dishes without having to worry about the everyday running of the day-to-day running of business," Saxena says.

NSR now plans to expand the business into India's tier one and tier two cities, starting with Pune, Bangalore and New Delhi, over the next two years. Restaurants, cafés and takeaway outlets will be opened, depending on the demographic of the surrounding neighborhood.

While transactions detail were not disclosed, Saxena describes the EBITDA multiple as large but reasonable. "At this level you are buying Mr. Moshe, his concept and fact he has spent many years to get to where he is," he says.

An issue of control

Alibaba Group wants the Hong Kong Stock Exchange to permit a bespoke IPO structure that would allow management to retain board control. By refusing, is the bourse going to forgo more China tech business?

ALIBABA GROUP SPENT WEEKS LOBBYING Hong Kong regulators to permit its bespoke IPO structure. The company wanted to consolidate power within a group of 28 partners, including Jack Ma and Joe Tsai, the executive chairman and executive vice chairman, respectively, allowing them to nominate a majority of board members even though their combined post-listing equity stake would only amount to 10%.

It was at odds with Hong Kong Stock Exchange's (HKEx) traditional "one share one vote" system, which favors the majority shareholders, but Ma still made a strong pitch.

"This is not a mere profit sharing mechanism, nor is it a vehicle of power to exert greater control over the company; rather, it is a system that provides a driving force within the company," he said in an email to HKEx and the Securities and Futures Commission (SFC).

He added that if no compromise could be reached, Alibaba might instead opt to list in New York, where the bourses permit a dual-class share structure allows the founders of Google and Facebook, for example, to control their boards.

HKEx CEO Charles Li responded in a blog post, saying he was open to change, provided the discussions aren't rushed. This was effectively a rejection of Alibaba's proposal, denying Hong Kong bragging rights over a landmark Chinese internet IPO that could value the company at as much as $120 billion.

VC investors are looking on with interest. Mechanisms designed to allow the founder to retain control of his company are popular in the tech space globally. An exchange's tolerance of these approaches can therefore influence the number of tech stocks that trade on it.

Fair play

Compared to US bourses, which allow a variety of listing structures including limited partnerships and limited liability companies, Hong Kong is indeed conservative.

Regarding the Alibaba proposal specifically, David Neuville, a Hong Kong-based partner at law firm Cadwalader, describes it as a provision that would likely be written into the company's articles of association, granting certain rights to the partners on board composition. While the effect is similar, the approach is differs markedly from the US dual-class structure, where one class is the standard "one share one vote," and the other offers multiple votes per share.

"There are other types of structures or ways of trying to accomplish the same objective. The point is the Hong Kong Stock Exchange, in the case of Alibaba, basically said 'We don't like any of them,'" Neuville adds.

Entrepreneurs like them because they address concerns about being acquired by rivals via the public market. In the ruthlessly competitive Chinese e-commerce space, a company could cause a huge amount of trouble for a competitor by accumulating a 30% stake in their business from small-scale public shareholders.

However, J.P. Gan, managing partner at Qiming Venture Partners, argues that these structures are unlikely to gain traction beyond mature markets. The presence of a dual-class structure can undermine valuations while institutional investors might refuse to participate because they would have reduced voting rights.

> "I would oppose such structures - it's not fair on shareholders - and most IPO sponsors would oppose them as well"
>
> – J.P. Gan

"I would oppose such structures – it's not fair on shareholders – and most IPO sponsors would oppose them as well," says Gan. "It has only happened in large IPOs like Facebook, which attracts investors anyway because they see it as the next big thing."

It is worth noting that corporate structures alone do not dictate where a company lists. The US is perceived as a good venue for technology, thanks to its sophisticated institutional investors and strong analyst coverage.

Hong Kong is almost the polar opposite. High-growth tech stocks are also perceived as high risk and the regulator plays a much more active role in protecting investors, for example by refusing listing applicants that don't have a track record of profitability. In this context, tech firms often favor the US disclosure-based system over Hong Kong's merit-based approach.

"Hong Kong and the US follow fundamentally different regulatory philosophies," says Maurice Hoo, global leader of the private equity practice at Orrick. "The US regulator focuses on accurate and complete disclosures of material information. Even for companies with legal and financial risks and strong anti-takeover measures, they would not prevent them from listing, but would let the investors make their own investment decisions."

Uncertainty in America

However, US investors have yet to overcome the crisis of confidence in Chinese mid-cap stocks sparked by the emergence of financial irregularities among a number of companies. Only two private equity-backed Chinese firms have listed in the US so far this year – LightInTheBox and Montage Technology – well short of the 15 that went public in 2011.

"As a VC investor, we are more focused on whether we can exit our investment with fruitful returns," says Jixun Foo, a partner at GGV Capital. "Choosing a listing venue is actually the company's call. US bourses are still one of the main consideration as we believe US investors are becoming more rational in evaluating Chinese internet companies."

As for Hong Kong, the jury is still out. Tencent Holdings, now one of China's biggest internet companies, went public in the territory nine years ago with the stock debuting at HK$3.50; it is now valued at more than 100 times that amount. Kingsoft and NetDragon Websoft have also performed reasonably well.

Forgame Holdings, which is backed by TA Associates, Qiming and Ignition Capital Partners, is targeting a $222 million IPO in Hong Kong, in part because local investors are more familiar with the Chinese online gaming market.

If the regulators want to capitalize on this sentiment and attract more tech listings, they might have to consider easing the rules.

"The exchange is unwilling to be flexible at this point and it could push some companies in different directions, such as towards the US," says Cadwalader's Neuville. "In the long term, HKEx will have to think about its position because the present one isn't particularly useful in developing the importance of the exchange."

EXPRESSION OF INTEREST ("EOI")

FOREIGN PARTNER SELECTION FOR A NEW SUB-SAHARAN PRIVATE EQUITY FUND

Today, Sub-Saharan Africa represents the last and perhaps one of the world's most attractive emerging market private equity frontier regions.

Our client is the investment banking arm of one of Sub-Saharan Africa's largest, oldest and most prestigious diversified publicly traded financial service institutions. In 2012,it reported audited assets in excess of $20bn,earnings of approximately $500m+, and a return on average shareholders' funds of 18.8%.

Over the past decade (2003-2013), our client has operated a small-cap private equity and principal investing business but now intends to raise a separate, significant and sizeable new private equity fund (the "New Africa Fund"). The New Africa Fund will focus on larger investments in Sub-Saharan Africa thereby capitalizing on the many attractive and diverse private equity opportunities in this high growth region.

Expressions of Interest ["EOI"] are now sought from highly successful and proven existing Private Equity firms operating internationally (prior emerging market PE experience is essential) to partner with our client in the New Africa Fund. Upon submission of an EOI as a co-fund manager, your firm, if pre-qualified, will receive a formal Request For Proposal ("RFP") due for submission by December 2nd, 2013. **Final partner selection is expected to occur by March, 2014.**

The International PE partner selected should expect to fully co-manage all aspects of the New Africa Fund with our client including: 1) providing a leadership role with our client in international fund raising and support on Africa wide fund raising efforts, 2) developing the New Africa Fund's investment strategy and sector/country focus, 3) the LP engagement process (preparing 3rd party presentation materials, road show, etc) and 4) negotiations and achieving financial closing(s) for the New Africa Fund.

Your expression of interest letter must include the following to avoid disqualification:
1. Full registered name of your current fund
2. Key person contact details (email, phone & physical address)
3. Total Fund Assets Under Management [AUM]
4. Name and address to where to send the formal RFP (contact name, fund name, e-mail and physical address only)
5. Your fund's website address

Only successfully selected responses to this EOI will be notified by e-mail to your designated contact by not later than October 31st, 2013.

Summary Indicative Timetable:
- Expression of Interest submission deadline: October 28th, 2013
- Successful EOI responses notified, October 31st, 2013
- RFP & Term sheet circulated Nov. 1st, 2013
- Management presentation& one-on-one meetings, November 14th & 15th, 2013
- RFP submission deadline, Dec. 2nd, 2013
- Successful RFP submissions notified Dec. 10th, 2013
- One-on-One pre-negotiations/Term Sheet review Dec. 12th – 15th, 2013
- One-on-One negotiations commence January 20th, 2014
- Conclude negotiations & partner selection March 31st, 2014

Please send Expression of Interest letters by October 28th deadline, 2013 by email to:
chike.obianwu@templars-law.com,
Tel: +234-703-470-4697

KKR, CDH go greenfield in China

KKR ISN'T KNOWN FOR BACKING start-ups, but the risks associated with the firm's recent foray into dairy farm ownership in China are tempered by the presence of familiar partners. For its first control deal in China and first greenfield deal globally, KKR has brought in Modern Dairy, a portfolio company since 2008, and CDH Investments, a co-investor in Modern Dairy.

The three investors are putting $140 million into the joint venture, which will see the construction of two, 10,000-cow farms in Shandong province. KKR will take a 61.5% stake, with CDH and Modern Dairy owning 20.5% and 18%, respectively.

Dairy: Still a food safety play

The relationships that underpin the joint venture actually stretch back to 2002 when KKR's China team, then part of Morgan Stanley Private Equity Asia, invested alongside CDH in China Mengniu Dairy. Around this time they met the team that will manage the joint venture. The group had built farming operations that were ahead of their time but couldn't scale the business. Modern Dairy made the breakthrough in this area, expanding from 24,000 cows and three farms in 2008 to around 180,000 cows and 22 farms today.

"When we invested with Modern Dairy, the business model was not proven," says Julian Wolhardt, China regional leader at KKR. "Over the last six years, we demonstrated the investment thesis was correct. This time around, the risk is in the start-up nature of the business. But it is a manageable risk because we have built 18 farms in the last couple of years with Modern Dairy."

Indeed, many of the processes currently underway are similar to those undertaken at Modern Dairy. The investors are working with barn designers from the US to optimize the cows' living conditions, management expertise has been sourced from Australia, and the milking equipment is being shipped in from Israel. Additional land has also been secured alongside the farms to grow corn for animal feed; cow manure will be used as organic fertilizer.

Modern Dairy is supplying cows to the joint venture and will buy the milk produced, which will eventually find its way into Mengniu branded products. Mengniu, now Modern Dairy's majority owner, has a longstanding master off-take agreement with the firm. Furthermore, terms have already been agreed for Modern Dairy to acquire full ownership of the joint venture farms in 3-4 years.

That the investment is an extension of the thesis behind Modern Dairy – China's food-safety conscious consumers will pay a premium for high-quality products – shows how much further the dairy industry has to go.

"China's dairy industry needs to become more institutionalized, with greater integration between the branded companies and the upstream suppliers – that is the only way the branded companies can tell consumers their milk is safe," says Woldhardt. "But it will take 15 years to get there. We went from 1% to 7% penetration of large-scale farms in the last seven years."

TPG exits a more diversified UT Capital

PROPERTY PRICES IN CHINA ARE inextricably linked to government policy. Vigilant to the emergence of bubbles in different geographies and segments, the authorities are ready with measures to curb price growth, but they must also ensure a sector that contributes so much to GDP doesn't go into freefall.

It is a difficult balance to strike, as intermittent market volatility shows. On acquiring financial leasing business UT Capital Group in 2008, TPG Capital prioritized customer diversification so the company wouldn't fall victim to these forces.

Having once been UT's predominant focus, construction now accounts for just 4% of its business. The company finances equipment purchases for small and medium-sized enterprises (SMEs) across nine verticals, with healthcare, education, printing and packaging, and machine tools the most prominent.

"You go where your customers are," says a source close to the company, "and if you think about where China is going, it is investing in areas like education and industrial businesses."

UT Capital comprises two units – financial leasing business UniTrust and heavy-truck leasing business UniFortune. It also owns a trade finance platform. UniTrust is the main operating subsidiary, providing services to 3,000 corporate customers across 260 cities. The company is the third-largest player in China's financial leasing space, with net assets of RMB2.4 billion ($392 million) as of June 2013, and first-half net profit of RMB199 million.

UniTrust: Trade sale exit

Last week, TPG agreed to sell UT Capital to Haitong International Holdings, a subsidiary of brokerage Haitong Securities, for $715 million after a competitive bidding process.

The PE firm bought UT Capital – then known as Nissin Leasing – from Japan's NIS Group in 2008. It paid JPY20 billion (then $181 million) for a 40.66% stake in NIS and injected $102.5 million into Nissin, taking a 50% interest in the business, with the option to assume full control.

The arrangement with NIS didn't work out as planned; TPG agreed to sell most of its shares to a group of domestic investors within 12 months of the original deal and made a full exit in 2009. However, by this point it already owned the China business outright. The deal structure complicates calculations of TPG's return, but AVCJ understands the money multiple is around 2.5x.

Haitong expects to exploit synergies between UT Capital and its existing brokerage, corporate finance and asset management platform, with plans to offer a broader set of financial services to leasing customers. There is no shortage of demand. It is estimated that Chinese SMEs rely on banks for just 4% of their financing needs – a world away from 80% in Europe and 30% in the US.

"The China leasing industry currently has a low penetration rate, and as there is increasing demand for alternative sources of capital from Chinese businesses, we believe that UniTrust is well positioned to capitalize on this opportunity," said Siming Li, CEO of UniTrust.

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Hooking up Hong Kong

Hong Kong has one of the most saturated and advanced broadband markets in the world. Finding new areas of growth is difficult but not impossible, says Hong Kong Broadband owner CVC Capital Partners

HONG KONG RESIDENTS ARE GENERALLY blessed with good internet connections. The territory has highly sophisticated telecom market with fixed-line broadband penetration of 84.5% and average connection speeds of 63 megabytes per second – among the fastest globally.

The local telecom sector is worth around HK$63.4 billion ($8.2 billion) a year and employs 18,000 people. Internet service providers (ISPs) account for a large part of the market. Nearly 200 ISPs are licensed to provide broadband services, notably Hutchison Telecommunications, PCCW and I-Cable Communications, and Hong Kong Broadband Network (HKBN).

It is rare for a PE firm to get the opportunity to invest in one of these big beasts, but last April CVC Capital Partners seized its chance to buy HKBN for around HK$5 billion ($644 million).

"The good thing about this business is that there is a high barrier to entry, as it takes billions of dollars to establish a network," says Roy Kuan, managing partner at CVC Asia. "When we made the acquisition, the company had already invested around $4 billion over the preceding years. If anybody wants to play in this game they have to spend that at least that much and then the process can be time-consuming."

HKBN, Hong Kong's second-largest ISP, was the local telecom subsidiary of City Telecom. It came onto the market because City Telecom wanted expand its domestic television operations – to compete with the likes of TVB – and required capital to do so.

CVC, which had already acquired several international direct dialing (IDD) businesses in Hong Kong and Canada, was a good fit for the business. The firm acquired the asset through Metropolitan Light Company, a Cayman Islands-incorporated entity controlled, committing HK$2.65 billion in equity from its third Asia Pacific buyout fund, which closed at $4.2 billion in 2008.

The remainder of the transaction was financed through a HK$2.5 billion loan from J.P. Morgan and Standard Chartered.

Fine tuning

HKBN was already a successful business when CVC came in, having already increased its number of subscribers two-fold over the previous five years, from 683,000 in 2007 to 1.3 million by 2012. In addition, the company had demonstrated impressive revenue growth against its fixed line industry peers with a compound annual growth rate (CAGR) of 9.1% in 2012 – 2% ahead of second-placed Hutchinson Telecom Hong Kong.

So the PE firm's first priority was to keep a strong business ticking over. One way to achieve this was by retaining existing management and incentivizing them with equity interests, giving managers the opportunity to put up their own personal saving and co-invest in with CVC.

"In all of our deals we have managers co-invest with us, so in that respect this was no exception," says Alvin Lam, managing director of CVC's operations team. "What was exceptional was that the existing management wanted to take the co-investment program wider, and include a larger number of managers. We thought, 'Sure, let's do it,' and it was very well received."

In total, 79 managers took part in the co-investment program. The terms ensure that, if the business outperforms, they will receive a greater share of the upside.

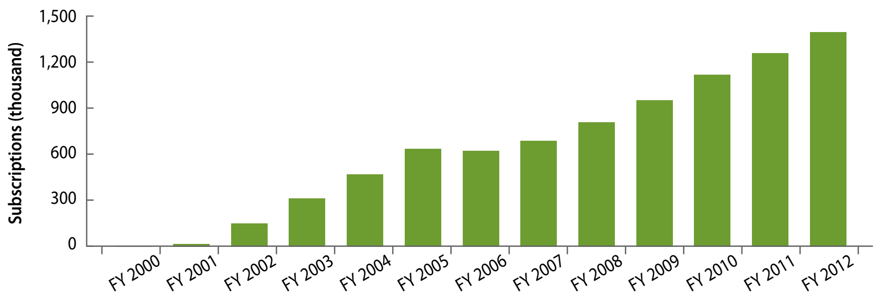
In addition to motivating existing talent, CVC also added several new managers. Given this was a carve-out from a larger company, HKBN was left with a number of key positions that needed to filling, among them chief information officer and chief marketing officer. Both were hired a locally.

"Fortunately we were able to hire these people very quickly, sourcing them both from competitors and other major corporations in Hong Kong," say Kuan. "Everybody with HKBN is from Hong Kong and it is something the company is very proud of."

Changes were also brought in further down the management structure. HKBN has half its business in Hong Kong while the other half – providing over-the-phone customer services – is based in Guangzhou. When CVC bought the firm, the Hong Kong side of the business had been divided into geographically-focused teams – each handling new subscribers, customer retention and aftercare for a specific district.

While there are merits to this entrepreneurial approach and giving employees ownership of each district, the private equity firm concluded that Hong Kong's limited size was an impediment. They switched to a functional set up with separate teams responsible for the acquisition of new subscribers, retention and aftercare throughout the territory.

Hong Kong Broadband subcriptions



Source: Company data

Stronger connections

Despite the level of penetration in Hong Kong's broadband market, CVC also indentified several avenues of growth. One of the company's strongest points has been its metro ethernet (ME) network, which was completed in 2004 and is the largest in the world. Thanks to this network HKBN became the first ISP in the territory to offer a 1,000 megabytes per second residential fiber-to-the-home (FTTH) service.

"Most people looking in from the outside would see Hong Kong as having very high broadband penetration already, so they ask 'How can it grow?'" says Lam. "What we found out of was that around two thirds of the market had bought so-called 'broadband' that was actually under 20 megabytes per second because it was still over copper lines. That meant around 2 million homes could benefit from an upgrade."

> "The good thing about this business is that there is a high barrier to entry, as it takes billions of dollars to establish a network"
> – Roy Kuan

Those households missing out typically receive broadband services over an ADSL (asymmetric digital subscriber line) connection, which is internet delivered over the wires of a local telephone network. ADSL download speeds can be as low as 20 megabytes per second, but in real terms this can be 2-4 megabytes per second. Upload speeds, meanwhile, can be even slower.

HKBN's FTTH service, which offers a minimum speed of 80 megabytes per second, is symmetrical so users can operate at the same speed for both downloads and uploads. Kuan notes that this is a crucial advantage in a market where services such as social media and online gaming rely on rapid upload speeds.

An additional benefit of the HKBN's FTTH service is the pricing. Because the company already has a ME network in place, HKBN allows customers to switch over to FTTH at a far lower installation cost compared to competitors. This conversion from DSL has been a major driver of growth over the past year with subscription numbers and average revenue per user (ARPU) expected to increase in 2013.

Going mobile

Another consumer trend HKBN is keen to exploit is the increasing mobility. When CVC came onboard, PCCW had stolen a march by building a network of 12,000 hotspots across Hong Kong. HKBN responded with a HK$200 million project that will see its Wi-Fi coverage expand to 15,000 hot spots over the next 18 months.

This involved the bolt-on acquisition of Y5Zone in January. The wholesale provider of wireless broadband network services operates 6,500 hot spots in Hong Kong and more than 600 in selected cities on the mainland. This deal alone took the combined HKBN-Y5Zone Wi-Fi network in Hong Kong to 7,000 hot spots.

The company's ongoing efforts in this area are being funded with the proceeds from a $450 million five-year bond offering. The unrated issue also helped HKBN pay off bank loans.

"The idea behind this is that if you are already subscriber, this is another value-add service," explains Lam. "It is good for our residential subscribers but also good for our corporate customers, notably retail companies that benefit from having a hotspot installed in their shop."

Lam adds that these initiatives to increase HKBN's subscriber base by adding value appear to be paying off. While not all the relevant figures are available, the company's EBITDA margin has jumped by 300 basis points since the acquisition.

CVC's typical holding period is 4-5 years, and HKBN is not expected to be an exception. An exit via either a trade sale or an IPO remains an option, according to Kuan, because the company is a fundamentally attractive business. And bringing faster services to a larger number of households will only make it more so.

"Hong Kong's average broadband speed maybe among the fastest in the world but we still think it is pretty slow compared to what we have to offer," Kuan says.