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EDITOR'S VIEWPOINT

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Who pays?

WHEN PHILIPPINE LONG DISTANCE Telephone (PLDT) bought a 10% stake in e-commerce incubator Rocket Internet for $444 million last year, the agreement had a notable addendum: the companies would develop a payments and remittance infrastructure for Rocket's portfolio of emerging markets start-ups.

At the start of 2015 it was announced that they would form a joint venture mobile payments platform. It promises to be a combination of the assets PLDT already has in place through Smart eMoney, the largest "branchless banking" network in the Philippines, and Rocket's expertise in Europe-based payments platforms Paymill Holding and Payleven Holding.

As architect of online retailer Zalora and e-commerce marketplace Lazada – both of which have established sizeable footprints in Southeast Asia – Rocket's move into payments apparatus that supports these businesses was not unexpected. Alibaba Group also has ambitions to expand its e-commerce platforms into the region and Alipay, its dedicated payments service, will no doubt follow.

Consolidation in the Southeast Asia mobile payment space seems like a logical outcome, although it remains to be seen how long this process takes and what path it follows.

There is no questioning the size of the opportunity. Frost & Sullivan estimates that the value of B2C e-commerce in Singapore, Indonesia, Malaysia, the Philippines, Thailand and Vietnam will grow from $7 billion in 2013 to $34.5 billion in 2018. At the same time, some markets lack the infrastructure required to support this expansion. Though credit card penetration may be low, mobile penetration is high and rising higher – so there is obvious potential in payment services on handheld devices.

A handful of start-ups have received venture capital funding with a view carving out a slice of this market. This week 2C2P raised $7 million from Amun Capital and GMO Venture Partners and the company has outlined bold plans for regional expansion and a broader portfolio of products and services. It claims to have processed $2.2 billion in transactions in the 2014 financial year, up 400% on 2013.

However, picking winners in a market that remains relatively immature is tricky. First, industry participants tend to emerge from various niches. Coda Payments uses telecom providers' infrastructure to provide billing services to third-party merchants; Ayannah started out doing cross-border remittances for the Philippines diaspora but recalibrated its network for the domestic market, targeting mobile phone charge cards and then micro-insurance and payments.

Second, a payments business is only as strong as the partnerships it establishes with financial services and retail counterparties. A start-up pitching for business with an online retailer will be asked whether it has a critical mass of financial institutions on board. Needless to say, financial institutions will ask the same questions about online retailers.

Coda, for example, got traction in Indonesia when it convinced a telecom operator that its business model made sense. Ayannah relies on relationships with the clutch of non-banking financial companies that dominate lending at the lower end of the customer spectrum in the Philippines. 2C2P's momentum in Thailand was due to the founder's familiarity with local financial services providers through a previous business venture.

Relationships – and the way in which they can facilitate the navigation of idiosyncratic local bureaucracies and business networks – are also a key factor in whether these payments providers can expand into new markets within Southeast Asia. As a result, there is often an emphasis on collaboration rather than competition.

Similarly, there is a reluctance to cast the threat posed by the PLDT-Rocket alliance and Alibaba's Alipay in binary terms. Payments providers can see themselves working with these giants, for example, facilitating access to a range of banks within a particular market. Indeed, it is hoped that the arrival of large-scale e-commerce players might accelerate the introduction of alternative payment instruments and ease reliance on Visa and MasterCard.

What this means for the long-term future of these VC-backed providers – as potential acquisition targets, large-scale platforms or smaller-scale also-rans – remains to be seen.

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NEWS

GLOBAL

Lexington raises largest ever secondaries fund

Lexington Partners reached a final close on its eighth global secondaries fund at the hard cap of $10.1 billion. It is the largest dedicated secondaries vehicle ever raised. There are more than 300 LPs, with existing investors account for the majority of the corpus. The fund is already 30% deployed having completed six transactions.

I Squared closes debut global infra fund at $3b

I Squared Capital, a private equity firm set up by former Morgan Stanley managers, has closed its first global infrastructure fund at $3 billion. The ISQ Global Infrastructure Fund, was oversubscribed, having started out with a target of $2 billion.

AUSTRALASIA

PE-owned Eclipx gains on debut after $195m IPO

Australian vehicle financing and management service Eclipx, which is owned by Ironbridge Capital Partners and GIC Private, saw its stock jump 21% on debut following a A$253 million ($153 million) IPO. Ironbridge now holds a 40.6% stake, having swapped its $84.3 million in promissory notes for shares in the company. GIC has made a full exit, with Eclipx agreeing to repay A$73.4 million in promissory notes.

CHAMP, Yorkway to buy quantity surveyor

CHAMP Ventures and Yorkway Equity Partners are set to buy a majority stake in Australian quantity surveying company BMT Tax Depreciation in a deal that values the business at around A$65 million ($50.3 million). CHAMP will hold most of the 70% stake going to the new investors. The rest will be held by members of the existing management team

CHAMP Private Equity hires ex-CVC executive

CHAMP Private Equity has hired Graham Brooke, a former executive with CVC Capital Partners, as a managing director based in Sydney. Brooke previously spent 15 years at CVC, five of which he spent managing the firm's portfolio interests in the Australia as head of operations before returning to the London office in 2013. CHAMP confirmed that Brooke will start in the third quarter this year, and that he will report to John Haddock

Fosun to support Cirque du Soleil's China expansion

Chinese conglomerate Fosun International and TPG Capital have together acquired Canadian circus entertainment company Cirque du Soleil with a view to growing the business in China. The deal is understood to value the business at $1.5 billion. TPG will own 60% while Fosun will take a 20% stake. The remainder is held by Canadian pension fund Caisse de dépôt et placement du Québec, and Cirque du Soleil founder Guy Laiberte, each of which has 10%.

Set up in 1984, Cirque employs more than 4,000 people, including 1,300 performers, and holds shows across the world. Aside from generating income via tickets sales, it makes money through private events, show-related merchandising, and by licensing its brand to the hospitality and fashion industries. The company makes make about $1 billion in revenue annually, although it has struggled in recent years.

Cirque said the new deal would not only allow greater access to the Chinese market but also allow it to expand its consumer brands and media partnerships; and extend its offering through third-party intellectual property deals, digital media and ticket sales, and licensing.

Riverside adds to Australia e-learning platform

The Riverside Company has acquired C-Learning, an Australia-based developer of online education courses, to complement its existing education asset in the country, Learning Seat. Based in Melbourne, C-Learning produces content for learning and runs an online training platform - C-Netic - that provides training to over 300,000 learners in 150 organizations globally.

GREATER CHINA

Ratan Tata buys stake in China's Xiaomi

Ratan Tata, chairman emeritus of the company that controls Tata Group, has invested an undisclosed sum in VC-backed Xiaomi, the first investment by any Indian in the Chinese smart phone maker. Xiaomi entered the Indian market last July but early success was cut short by patent complaint. Last week the company unveiled a new handset that supports six Indian languages.

BlueRun closes third China VC fund at $200m

BlueRun Ventures has closed its third China-focused venture capital fund at $200 million, targeting early stage start-ups. The vehicle will make investments at angel and pre-Series A stages, committing between $100,000 and $10 million per transaction.

LBX hits trading cap on Shanghai debut

Laobaixing Pharmacy Chain (LBX), a Chinese retail pharmacy chain backed by EQT Partners, closed up 44% on its price on the first day of trading in Shanghai. LBX raised RMB1.01 billion ($163 million) through its IPO, selling 67 million new shares at RMB16.41 apiece. EQT now has a 34.77% stake in the business.

Hony fully exits Chinasoft through $170m sale

Hony Capital has made a full exit in Chinasoft International, a Chinese IT application developer, raising HK$1.32 billion ($170 million). It sold 335 million shares – or an 18% stake – through a private placement at HK$3.93 apiece.

PE participates in $645m China TCM placement

GIC Private, China Renaissance Capital Investment (CRCI) and GL Capital Group are among 26 investors subscribing to a HK$5 billion ($645 million) share placement by China Traditional Chinese Medicine, intended to generate capital for acquisitions.

Hony backs HK consortium bidding for TV channel

Hony Capital has joined a consortium led by David Chiu, chairman of Hong Kong-listed

property developer Far East Consortium International, which is applying for a domestic free-to-air television license. The entity also counts Pansy Ho, daughter of tycoon Stanley Ho, and Sze-Lim Li, founder of Guangzhou-based R&F Properties, among its shareholders.

Investec leads $84m round for P2P lending site

South African-based Investec Bank has led an $84 million Series C round of funding for Jimubox, a Chinese peer-to-peer (P2P) online lending platform, with participation from Haitong Kaiyuan. The round also includes Mandra Capital, Zhong Capital Fund, Matrix China Partners, Xiaomi, Shunwei Capital Partners, Ventech China and Magic Stone Alternative.

CMC Capital acquires stakes in HK broadcaster TVB

Chinese media-focused private equity firm CMC Capital Partners has acquired a stakes in the consortium that controls Television Broadcasts (TVB), a free-to-air broadcaster in Hong Kong. The consortium, which includes Providence Equity Partners, acquired a 26% stake in TVB in 2011 in a deal worth up to $1.3 billion.

Former Auda Asia head joins 3W Partners Capital

Pak-Seng Lai, formerly head of Asia at Auda, has joined 3W Partners Capital, which focuses on consolidation and cross-border investments through strategic resources in southern China.

NORTH ASIA

Integral, ANA agree joint sponsorship of Skymark

Integral Corp. has reached an agreement with local airline operator ANA Holdings to invest JPY18 billion ($150 million) in ailing Japanese carrier Skymark. The PE firm will hold just over 50% of company, while ANA – parent of All Nippon Airways – will take up to 19.9%. Other entities will hold the remainder.

NPS ups alternatives exposure to 9.9%

The National Pension Service of Korea (NPS) increased its alternatives allocation from 9.4% to 9.9% over the course of 2014 as total assets grew by 10.3% to reach KRW470 trillion ($435 billion). Of the KRW46.7 trillion in alternatives, KRW24.5 trillion globally and KRW7.35 trillion of that was in private equity funds, up from KRW5.08 trillion in 2013.

Advent, Temasek to buy Crompton Greaves unit

Advent International and Temasek Holdings have agreed to buy a 34.37% stake in the consumer products unit of India's Crompton Greaves from Avantha Group. The deal values the business at INR66 billion ($1.07 billion).

The groundwork for the divestment was laid in March when the Crompton Greaves board approved the demerger of its consumer products unit into subsidiary Crompton Greaves Consumer Electricals (CGCEL). Shareholders in Crompton Greaves will receive shares in CGCEL such that the ownership of the subsidiary mirrors that of the parent. CGCEL will list on the National Stock Exchange of India and the Bombay Stock Exchange. Once Advent and Temasek have completed their acquisition of the Avantha stake, they will make an open offer for control of the company - 65.46% of its shares will be publicly traded - in accordance with takeover regulations.

CGCEL is India's leading manufacturer of fans and residential pumps. It also produces consumer products such as lamps, water heaters, toasters and irons. The business generated revenue of INR28.5 billion for the year ended March 2014.

SOUTH ASIA

Freshdesk raises $50m from existing investors

Online customer support start-up Freshdesk has raised $50 million in Series E funding from existing investors Tiger Global Management, Google Capital and Accel Partners. The US- and India-based company will use the funds to enhance the Freshdesk and Freshservice platforms, and to add employees. in order to stay competitive with rival Zendesk.

Blackstone set for partial exit from Nuziveedu

Indian seeds producer Nuziveedu Seeds has filed for a domestic IPO. The company plans to raise INR1.25 billion ($19.8 million) through an issue of new shares, while the promoter and The Blackstone Group will sell up to 11.9 million existing shares between them.

Classifieds platform gets $28m from GIC, Norwest

GIC Private has led a Series C round of funding worth INR1.75 billion ($28 million) for Sulekha.com, an India-based classifieds platform based in India. Existing investor Norwest Venture Partners (NVP) also participated. Sulekha's platform connects about 20 million online users with local businesses across more than 800 categories.

Sequoia leads $18m round for handicraft site

Sequoia Capital has led an $18 million round for Indian online handicraft market place Craftsvilla.com. Global Founders Capital, a VC firm set up by Rocket Internet's Samwer brothers, also took part. Craftsvilla claims to offer two million handmade products on behalf of 12,000 sellers nationwide.

Mayfield leads Series C for education tech start-up

Mayfield has led a $15 million Series C round for Indian IT certification start-up Simplilearn, with participation from previous investors Kalaari Capital and Helion Venture Partners. It brings the total raised by the company to $27 million.

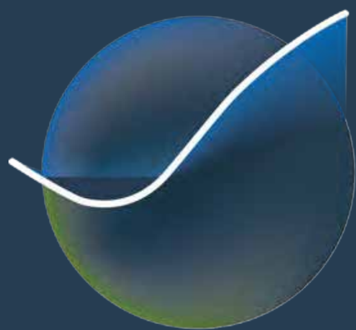
Bangladesh's SureCash gets $7m Series B round

Bangladeshi mobile banking and payments operator SureCash has raised a $7 million Series B round of funding from Asian frontier market investor Osiris Group. SureCash integrates multiple banks into a single platform.

SOUTHEAST ASIA

SE Asia Netflix clone gets $30m in funding

Iflix, a Southeast Asian video-on-demand platform with a similar business model to Netflix, has received $30 million from Catcha Group and Philippine Long Distance Telephone Company (PLDT).



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Eat what you cook

Franchising is an effective way of establishing Western restaurant brands in China. Private equity firms have picked up on the opportunity, but it is not without risk. Local appeal and strong partners are essential

FORMER INVESTMENT BANKER JUSTIN Kennedy opened his first store as PizzaExpress' Greater China franchisee in 2001. It was located in Hong Kong. While keeping a hungry eye on the mainland market, Kennedy's instinct was to take it slowly: the Chinese weren't quite ready for a premium slice of pizza.

Five years later, PizzaExpress launched in Shanghai but the pace of expansion has been conservative. There are now 13 stores in Shanghai, one in Shenzhen and 12 in Hong Kong.

"Many people with a franchise think, 'I've got an amazing global brand that works well in Europe or the US, so I can open stores like crazy in China and Chinese consumers will queue up to buy my products'. That assumption doesn't hold," says Kennedy. "The first challenge of operating a foreign brand, however strong it is in the US, is in China it's brand new and you're starting pretty much from scratch."

PizzaExpress' UK-based management team – and Cinven Partners, its PE owner – were not so patient. Last May a wholly-owned outlet opened in Beijing. Two months after that, PizzaExpress was sold to Chinese PE firm Hony Capital for EUR900 million ($1.5 billion). The new owner planned to acquire the 26 franchised restaurants in China and open 15 more every year.

This is not an isolated incident of PE targeting fast dining. Last year RRJ Capital teamed up with Jollibee Corp. and acquired the license to operate Dunkin' Donuts across most of Greater China. They want to open more than 1,400 stores over the next 20 years. EQT Partners bought a majority stake in China F&B Group, local franchisee for Dairy Queen and Papa John's Pizza, while CVC Capital Partners bought local chain Da Niang Dumplings and plans to expand it nationwide.

These are China consumer plays, looking to leverage the appetite of an expanding middle class for a convenient, affordable and high quality dining experience. Franchising is an efficient way to achieve scale at short order. The model is proven in China, but it does not come without risk – whether the PE investor is working with partners to roll-out restaurants as a franchisee or sub-licensing to local operators as a franchisor.

Quick formula

Restaurant franchises have been present in China for about 20 years. A majority of the top 100 players in the catering sector – which are dominated by local brands – follow a hybrid model of self-owned stores combined with large franchisee networks. This is deemed necessary to stay competitive in a fast-growing market.

China's catering sector generated revenue of RMB2.79 trillion ($445 billion) in 2014, according to the China Cuisine Association. While the high-end segment has struggled due to a government crackdown on corruption that has curtailed spending by officials on entertainment, the quick service segment remains robust. Revenue rose from RMB243.8 billion in 2008 to RMB546.5 billion in 2013 and Frost & Sullivan projects compound annual growth of 16.4% through 2018.

Though well-known franchisors globally, the likes of KFC, McDonald's and Starbucks have to a certain extent eschewed the model in China. Rather than distribute products through a third-party licensee, who is bound by strict guidelines on how to operate and pays the franchisor an initial fee plus royalties, these companies own and operate restaurants directly.

This is in part a function of their early arrival in a market. When KFC set up shop in 1987, foreign companies were obliged to operate alongside local partners. It was only with greater acceptance of the wholly foreign-owned enterprise (WFOE) structure that KFC switched to self-owned outlets. Yum Brands has around 6,700 outlets in China. More than 90% are directly controlled – including all 4,800 KFCs – compared to around 10% in the international markets.

McDonald's, with more than 2,000 outlets, took a similar approach at first, although in recent years it has adopted a hybrid franchisee model.

For some brands, there is reluctance to commit the time and resources required to build up market awareness and achieve scale. The difficult early work is therefore carried out by a franchisee. For example, Mei Da Coffee secured the exclusive license for wholesale and retail operations under the Starbucks brand in Beijing and Tianjin in 1998. H&Q Asia Pacific acquired a controlling stake in Mei Da soon afterwards and took Starbucks from one store to 60 before exiting to the parent company in 2008.

"PE firms prefer to invest in restaurants where it is easy to standardize the product offering and scale up, such as quick service and fast casual restaurants," says Roger Liu, PwC's private equity deals leader for China. "It's rare to see a PE firm to buy a China franchise license from a global company and then operate the restaurants itself; instead it may consider investing in a successful third-party franchise operator."

> "My franchisees are locals in their respective provinces and cities. They are more in tune with the local market and they can cater different needs, and thus do a better job than I can" – Chris Tay

A good operator

In partnering with Jollibee on Dunkin' Donuts, RRJ has aligned with an experienced operator. Jollibee already has restaurant infrastructure in China, although this came through the acquisition of other established chains rather than the own-brand expansion that characterized its rise to prominence in the Philippines. Jollibee bought the Yonghe King noodle shop chain in 2004, the Hong Zhuang Yuan rice porridge restaurants business in 2008, and then added the San Ping Wang noodle chain.

PE and VC investors are also supporting Chris Tay, who previously headed up Taiwan food conglomerate Tingyi Holdings' China casual dining business, on YPX Cayman. The company started out with self-owned restaurants but is now creating sub-franchises with individual operators.

YPX is intended to serve as a platform that can operate several brands. The first of these is Taiwanese dumpling chain Cloud 9, which Tay

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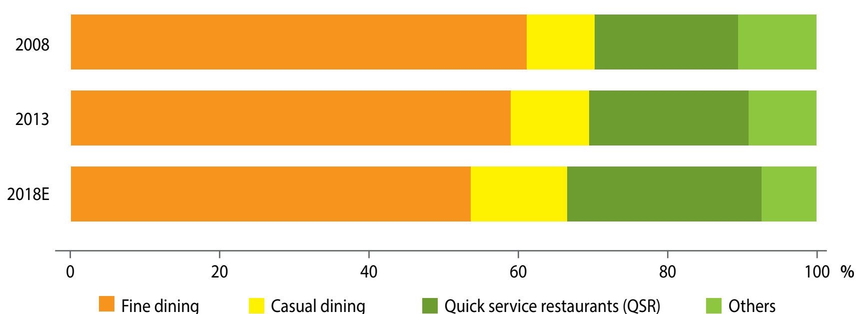
bought in 2010. The Taiwan-based assets were sold and YPX received $5 million from Qiming Venture Partners to start a greenfield operation in mainland China. A Series B round worth $15 million came in 2011, led by Taiwan's Hotung International. There have been two more rounds, of $11.5 million and $25 million in 2012 and 2014, as the Cloud 9 network grew to more than 40 outlets in different Chinese cities.

YPX only become a franchisor late last year. It is targeting 225 Cloud 9 outlets by, of which 100 will be franchise stores and 125 directly-owned.

PizzaExpress' Kennedy targets a return on invested capital of around 30% for each store. The Hong Kong operation is already funded through internal cash flows and Shanghai could soon become self-financing shortly after nine years of operation. When the franchise was first launched it was difficult to secure loans because banks saw the restaurant business to be too risky.

"Hony's team spent a lot of time looking at our brand development and growth strategy. They have seen how we operate in China, and how it compares to others who might take a more aggressive approach. I think they understand we're doing things differently," says Kennedy. "One difference is we are focused one building the brand at the same time as we build our restaurants rather than adopting the 'build it and they will come' approach."

China catering business market shares breakdown



Source: Frost & Sullivan

"About 99% of brands in the world need franchisees to put up all the money to open stores. The idea is the franchisors don't have to come up with their own capex. But for me to do franchised stores isn't so much about whether the franchisees have money or not. It's because I can't reach far in the China by myself. My franchisees are locals in their respective provinces and cities. They are more in tune with the local market and they can cater different needs, and thus do a better job than I can," says Tay.

The franchising process is described as a snow ball effect. For the franchisee, building up a network of restaurants is cash-intensive at the beginning, but once the business reaches a certain scale it becomes very cash-generative. The initial fee is negotiated and the royalties paid to the franchisor are usually in the region of 5% of monthly gross sales. Some franchisees operating foreign brands also have to pay material fees, whereby they are obliged to source certain ingredients from the US franchisor or from approved suppliers in China.

The PizzaExpress Hong Kong franchisee, which now pays royalties to Hony, obtains most of its fresh ingredients locally but has to import items such as cheese and mustard sauce from approved overseas suppliers. The RRJ-Jollibee venture, meanwhile, pays royalties and material fees to US-based franchisor Dunkin' Donuts.

Levels of comfort

Not every private equity firm is comfortable franchising out to third-party operators. Actis acquired a majority stake in Chinese hotpot chain Xiabu Xiabu in 2008. At the time the company had 40-60 outlets, some directly-owned and others franchised. All the franchised stores were soon bought back and the chain grew to more than 300 outlets before being sold to General Atlantic in 2013.

According to Andreas von Paleske, head of consumer at Actis, the PE firm generally prefers its restaurant chain portfolio companies to follow a self-owned store model. "We believe this gives us more control over locations, quality of operations, the management of the brand, and interface with consumers," he says. "The value of our investment is dependent on the strength of the brand and the quality of the operations backing it, which ensures repeat consumption."

The private equity firm typically expects each new outlet to be cash-generative within one or two years. It is suggested that, to achieve the same earnings growth through franchised operations, companies would need to open a much larger number of stores, and success hinges on finding franchisee partners with the requisite capital and skill-sets.

"That is why some of these players have pursued the owner-operator model when entering certain new markets," von Paleske adds.

McDonald's and KFC provide own staff training at every store they open in China. However, running such large operations they are not immune to risk. In the last year both companies have suffered from reputational damage after allegations that suppliers had provided expired meat to restaurants. Given the size of their China businesses, weaker sales have an impact on the bottom line globally. In the quarter ended March 2015, Yum saw net profit fall 9% year-on-year to $362 million as China sales dropped 6%, with same-store-sales decreased by 12%. KFC alone witnessed a 14% decline.

Burger King – which is currently owned by 3G Capital – faces a different challenge, industry participants say. It is spread relatively thinly, with approximately 200 restaurants nationwide, which makes it difficult to establish meaningful relationships with landlords and secure optimal locations.

By most accounts, foreign players from Taiwan and Japan are making the deepest inroads into the local market, with large franchisee systems that leverage economies of scale. Dicos, which is owned by Taiwan-based Ting Hsin International Group, is the leading operator with more than 800 franchisees running over 2,000 stores that serve Chinese-style friend chicken. It is followed by burger chain Hua Lai Shi and Guangzhou Real Kungfu Catering Management, also known as Zhen Gong Fu.

Indeed, Dunkin' Donuts has tried and failed in China before. The brand entered mainland China in 2008 with the opening of a shop in Shanghai. This initiative was led by Mercuries & Associates, the franchise partner for Shanghai and Taiwan, which planned to launch 150 outlets nationwide over a 10-year period. However, in early 2013 it was announced that the remaining 19 Dunkin' Donuts stores in Taiwan would close. This followed reports that the business was losing money.

Another franchisee secured the license for Shanghai and the provinces of Jiangsu and Zhejiang in late 2013 and plans to open more than 100 restaurants. RRJ and Jollibee, which have committed up to $300 million to their joint venture, are covering much of the rest of the country, including Beijing, Tianjin, Hong Kong and Macau.

One factor potentially working against the brand is donuts are seen by some as too sweet

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for local Chinese tastes, which could impair hopes of achieving a critical mass of demand. "I'm not optimistic about donuts becoming a big thing in China," says one industry source. "Chinese people don't enjoy sweet things like that. We have seen many donut shops in China in the last 10 years. Even Uni-President – with Mister Donut – can't get bigger."

China risk

To mitigate the risk of a foreign brand failing to gain traction locally, some private equity firms target more mature franchisee networks. This is the case with EQT's investment in China F&B Group, while CVC, which is the owner of Da Niang but wants to expand the business through a franchisee model, targeted a business that already had a substantial chain of restaurants.

Founded in 2003, China F&B Group controls Dairy Queen, the largest ice cream restaurant chain in the country, and Papa John's Pizza, the second-largest pizzeria player. It has more than 500 restaurants in total. Once the franchisee achieved certain scale, the US franchisor brought in a private equity shareholder with a view to professionalizing management and improving corporate governance.

"Dairy Queen and Papa John's Pizza in the US like our openness with them, which creates greater transparency. Individual founders tend to have more personal style in discussing issues, and they don't want to talk about the problems they face. Franchisors feel a lot more comfortable with us," says Martin Mok, a partner and managing director for China at EQT. "Secondly, most franchisors do have a development plan. When the franchisee doesn't meet the plan, the franchisor might have second thoughts about franchisee's credibility."

At times it does fall upon franchisees to fine tune the offering to suit local needs, such as changing up the management team, re-launching the menu and altering pricing strategies, and deciding how to structure promotions. Mok notes that a private equity investor can support these efforts.

The idea of a having an established, credible investor participating in the business is perhaps especially important in China's catering sector, where individual restaurants can see substantial inflows and outflows of cash. The risks are well known.

"Many restaurants operators in China rely heavily on cash payment, whether it is to pay salaries to the chefs or buy vegetables from wet markets. Sometimes it's difficult to trace the cash flows if IT and reporting systems are poorly established. It leads to a lot of inconvenience for private equity when conducting due diligence on target companies," says PwC's Liu.

This is where a restaurant chain operator, whether franchisor or franchisee, must strike a balance between scale and control. For the private equity investor, time and money are the key factors in devising a strategy. Set up a network of franchisees and a nationwide roll-out can be achieved rapidly, but the business is reliant on third-party operators. Building a self-owned chain with a local partner constitutes a larger capital risk, given the upfront investment required, but the pay-off could be higher.

It is unclear which path Hony will follow with PizzaExpress, and the firm may well opt for a combination of the two. From Kennedy's perspective, though, opening a lot of restaurants very quickly is not worth the risk. He notes that the Greater China franchisee has yet to close a failed branch, and this is the result of cautious expansion.

"I think that the problems come if you expand too fast and then you lose control of quality and consistency," Kennedy adds. "We're very focused on maintaining tight control of everything we do. It's really important to ensure that every guest leaves with a positive impression of the product, the service and the value proposition in order to build customer loyalty to the brand."

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Commitment issues

Proposed reforms of investment guidelines for India's pension system suggest that more domestic capital could flow into the asset class. But is the country's wider LP community really warming up to PE?

INDIA'S REGULATORS HAVE NOT YET opened the door for domestic pension funds to invest in alternative assets, but they are open to the possibility. If all goes to plan, remarks made by chairman of the Pension Fund Regulatory and Development Authority (PFRDA) could come to be seen as a watershed for domestic private equity and venture capital.

Hemant Contractor, the PFRDA's chairman, was speaking at a meeting of the Associated Chambers of Commerce of India in April. He indicated that, in response to a review of the investment guidelines for the National Pension System (NPS), PE and VC would feature in the phased roll-out of new asset classes in which the fund would be allowed to participate.

The PFRDA is expected to publish an official response in the coming weeks. However, private equity is unlikely to see much short-term benefit. Contractor said that the PFRDA was looking at a 2-3 year timeframe before the NPS would be ready to commit to the asset class.

Furthermore, any ramp up in exposure would be slow and from a low base. With an estimated INR820 billion ($13 billion) in assets, the NPS is a program launched by the government in 2004 for all Indian citizens. It is therefore unsurprisingly conservative. Over half of the portfolio is in government securities, a third in corporate debt, and just 8.1% in public equities.

But the development is significant in the context of incremental changes introduced in recent years to make investors more comfortable with domestic PE. These include the alternative investment fund (AIF) regime intended to allow tighter regulatory oversight of the asset class.

"I think there is an increasing desire among India's institutional investors – including pension fund managers – to look closer at growth private equity and venture capital as an asset class," says Sandeep Aneja, founder and managing director of Kaizen Private Equity. "This is partly driven by regulatory reform, but also partly due to the fact they would like better quality returns."

Limited exposure

While Aneja is not alone in identifying this trend, attracting domestic LPs to the asset class has historically been difficult. Opening up India's untapped wealth to private equity could be a long process, and one that requires more than regulatory reform.

Indian LPs that are active in PE have traditionally put most of their capital to work domestically, and these investments account for a relatively small portion of capital raised in the country. According to AVCJ Research, of the 184 recorded commitments made by India LPs over the past 10 years, 170 have involved funds with a country-specific focus. The average disclosed investment is $33 million versus an average fund size of $166 million.

It is important to note that these data do not capture all activity – high-net worth individuals (HNWIs) and family offices, for example, are under no obligation to disclose their commitments.

The latter group account for one of two broad categories of Indian LP. The other is larger institutional investors, particularly financial institutions and insurance companies, and they are said to be in decline. "In the last 4-5 years, funding from banks has come down considerably," says Vishal Tulsyan, managing director and CEO of Motilal Oswal Private Equity. "Some money has been raised on the real estate side, but pure play private equity growth funds have not seen a significant amount of investment from these domestics LPs."

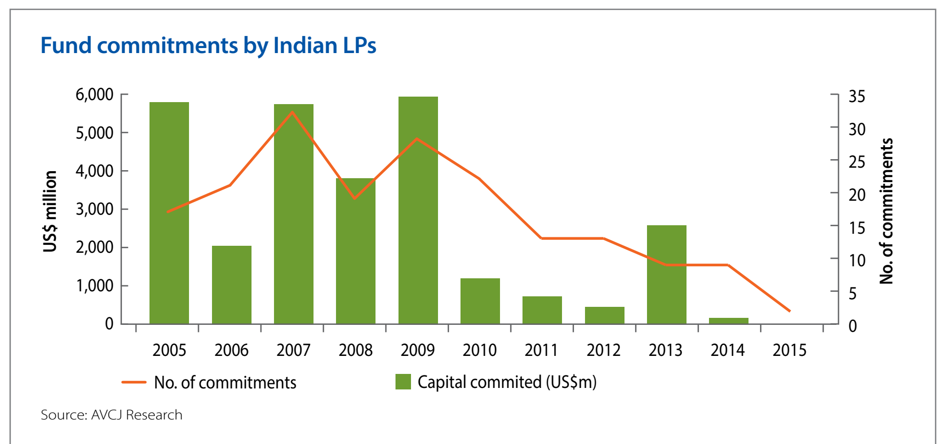
AVCJ Research's records – which predominantly focus on banks and other financial institutions – show that funds launched in 2009 received 28 commitments from Indian LPs worth a cumulative $5.8 billion (where disclosed). This number has declined with every vintage year. Funds launched in 2013 have so far raised $2.5 billion compared to $170 million in 2012. Each vintage has received nine commitments.

Part of this is down to regulatory restrictions. In 2012, the Reserve Bank of India (RBI) implemented Basel III framework, which limits the amount of risk capital banks can put to work. Another reason has been that Indian fundraising in general has been difficult. A lot of money entered the asset class in between 2006 and 2008 and valuations rocketed. Many GPs have subsequently struggled to exit investments, making it difficult to raise further funds.

Conversely, some observe that as HNWIs and family offices have grown in number and in assets, so have their commitments to private equity. Again, investments made by this group are not comprehensively represented by industry data, so its behavior can be hard to gauge.

Motilal Oswal's Tulsyan notes that there is more activity in areas such as infrastructure and real estate. Motital Oswal has raised two rupee-denominated funds, reaching at INR5 billion close on India Real Estate Fund II in 2012, and understood to planning a third.

Fund commitments by Indian LPs



Source: AVCJ Research

"Indian investors – in particular HNWIs and family offices – are not yet at the level where they can patiently wait out the typical 10-12 year term of a growth equity fund," says Tulsyan. "Meanwhile, real estate funds raised in the last decade have typically been shorter term funds of between four and seven years. Moreover, Indian investors feel more comfortable investing money against hard assets."

This does not mean growth equity vehicles

> "It is still early days and Indian pension funds will take time to understand the space, and carve out a strategy. But I hope they will emulate their western peers and Indian pension funds end up being a huge pool of capital to tap into" – Renuka Ramnath

have no appeal. Kaizen, for example, is targeting around $120 million for its second fund and is looking to raise 45% of the corpus from Indian investors. Aneja explains that his firm's sector-specific approach has helped attract domestic LPs. "I think education is a sector that is easy to understand, and it is a sector that appeals to people's conscience," says Aneja.

Going direct

While some family offices may be active as private equity investors, they often struggle to justify making commitments to blind pool funds. Deep Chatterjee – executive director with Rasiklal Maneklal Capital, the family investment office of India's UniDEL Group – explains that UniDEL has previously participated as an LP in PE real estate vehicles, but the funds performed poorly. As a result the group has decided to focus on direct investments, specifically in venture capital.

"Increasingly, there are a number HNWIs and large families that have been able to get access to individual transactions as they are often part of same kind networks as the fund," he says. "Therefore they have access to the same kind of deal flow and they have the freedom to invest on a case-by-case basis."

Another consideration is that, by participating in the asset class on a deal-by-deal basis, family offices do not face the same liquidity issues that come with a co-mingled fund. This returns to the issue of Indian investors' general comfort with a long-term asset class like private equity. It is not unique to family offices and HNWIs.

While Kaizen's Aneja expresses hope that about more institutional investors will engage in private equity, he tempers this optimism by pointing out that fund commitments from Indian LPs can be inversely correlated with the performance of public equities. With the market at record highs – the BSE Sensex Index, having previously crossed the 20,000-point threshold just twice, has been trading above 25,000 points since last June – even large players are unlikely commit in the near future.

"That is an indication of the relatively short-term thinking of large institutions such as pension funds and insurance companies. They weigh private equity performance against the public markets," says Aneja.

However, taking a longer-term view, many believe it is a matter of when not if Indian institutional investors feature more prominently in private equity. Numerous sources argue that investor confidence will grow as managers build up their track records. In the meantime, any efforts by regulators to unlock some of this capital are welcome.

"It is still early days and Indian pension funds will take time to understand the space, and carve out a strategy," says Renuka Ramnath, founder of Multiples Alternative Asset Management. "But I hope they will emulate their western peers and Indian pension funds end up being a huge pool of capital to tap into."

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Singapore's TradeGecko seals Series A round

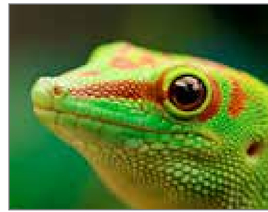
WHEN BROTHERS CAMERON AND Bradley Priest, and Carl Thompson, arrived in Singapore from New Zealand to join start-up accelerator JFDI.Asia in 2012, the idea was to create a mobile app that would connect e-commerce companies with third-party platforms through which they could manage their sales and inventory. The only problem was that idea wasn't good enough.

"We sat down and sketched out the business model and it just didn't work," recalls Cameron Priest, CEO of TradeGecko. "We found most of the clients we were talking to didn't have their own back-end system, or if they did, it wasn't very good."

It was at that point the young start-up made the difficult decision to scrap its first plan, give clients what they needed, and build an inventory software-as-a-service (SaaS) platform from scratch. Within a month of landing in Singapore, the new start-up had completely repositioned and rebranded itself as TradeGecko.

Three years on, TradeGecko has just received a Series A round worth $6.5 million led by NSI Ventures and existing backers Jungle Ventures. Including previous seed stage investments – from Jungle, JFDI.Asia, Wavemaker Labs, Golden Gate Ventures and 500 Startups – the business has raised $8.5 million to date.

The original team of three has grown to 60 people with offices in the Singapore and Manila, serving customers in 100 countries. Over the past three years, the start-up claims to have facilitated nearly $1 billion in transactions. Now TradeGecko is in the process of launching operations in the San Francisco.


TradeGecko: Scaling up

"The goal is to set up sales and support there," explains Priest. "We have 48% of our customers based in North America, and we think it is really important to serve them by being in the market."

Unlike many Asian start-ups – particularly in the SaaS space – TradeGecko will not move its headquarters to the US, with core functions and product development set to remain in Singapore. This was not always the plan. The company was initially adamant that it would raise capital from US investors and then relocate.

"We had seen some very good term sheets, and worked with some great US investors, but I then got the feeling that we could do this from Singapore," says Priest. "There is sense that if you are a global company you have got to move to San Francisco but there are now a few New Zealand start-ups that have shown this is not the case – although no-one has done it here in Singapore yet."

TradeGecko's priority is now rapid growth. The plan is to expand to over 200 staff in the next year and possibly look at other office locations in Australia and Hong Kong. As part of these efforts, the company has appointed Nathalie Benzing, former global head of post-merger integration at Autodesk, as its COO.

Priest says the goal is to maintain monthly recurring revenue (MRR) growth rate of 20%.

Scaling up in financial comparison

MONEYSUPERMARKET.COM STARTED out in 1993 as an offline provider of mortgage information to financial intermediaries. It went online six years later as a retail business, allowing UK consumers to search and compare different mortgage products. Credit cards, personal loans, insurance, and then flights and travel packages were added in due course.

An IPO followed in 2007, raising GBP366 million ($548 million), and Moneysupermarket now has a market capitalization of around GBP1.5 billion. In 2014, the company's platforms generated GBP241.1 million in revenue.

Having worked in investment banking in London for Morgan Stanley and then e-commerce in Asia for Rocket Internet, Gerald Eder asked: Why isn't anyone scaling up a financial comparison service in Asia? This question led to the formation of CompareAsiaGroup last year, with backing from Nova Founders Capital, an early-stage investment firm set up by three partners who formerly managed Rocket's e-commerce portfolio.

Following $5 million in seed funding, CompareAsiaGroup recently received a $40 million round led by Goldman Sachs and featuring Nova, Jardine Pacific, ACE & Company, Route 66 Ventures, and several angel investors.

The site offers information on 1,500 financial products – deriving revenue from financial services providers that see CompareAsiaGroup as an alternative marketing tool – employs 150 industry and technology professionals, and is rolling out in eight markets, from Taiwan down to Indonesia.

CompareAsia: Smart money

Eder acknowledges that his team must address distinct market characteristics. While Hong Kong already has a MoneyHero mobile platform, consumers in less developed markets require more encouragement. "They may prefer to have a phone conversation and so in each market we have built up call centers to support the website through human interaction," he says. The range and timing of different product categories also varies according to local demand.

Eder claims that the company is seeing growth of 30-50% month-on-month and the new funding will go towards sustaining this expansion. "The capital allows us to build up more categories, more product comparison tables in each country. "We can also build a more robust and user-friendly platform and also invest heavily in advertising and marketing."

Recruiting sufficient talented people to support these efforts is a challenge but CompareAsiaGroup does not feel under pressure from other comparison sites. Rather, the competition is television and bank branch networks – the places where banks might otherwise commit their marketing dollars.

"In every market there are websites that try to do business with banks and insurance companies," Eder says. "It is about getting them comfortable with a new tool in their distribution channels. They can use our platform to acquire customers at lower cost."

Ticket Monster tools up for e-commerce fight

EBAY PAID $1.2 BILLION FOR A DOMINANT position in Korean online retail in 2009 with the privatization of NASDAQ-listed Gmarket. It was the leading e-commerce marketplace, accounting for KRW3.99 trillion (then $2.6 billion) of the country's estimated KRW18.1 trillion in total online retail sales in 2008.

Gmarket was integrated with Auction, which was acquired by eBay in 2001 for $120 million. Euromonitor International put the combined market share of these sites at 22% in 2013. Since the Gmarket acquisition, online retail sales in Korea have grown 2.5-fold, reaching an estimated KRW45.3 trillion last year.

But it is also a changing market. Consumers are increasingly making purchases via mobile devices at the expense of desktop and other platforms. This was a factor in Groupon's decision to sell a controlling stake in e-commerce marketplace Ticket Monster barely 15 months after buying it for $260 million.

Groupon CEO Eric Lefkofsky said Ticket Monster "would benefit from additional resources and local expertise in its drive to be the leading social commerce company in Korea." This will be provided by KKR and Anchor Equity Partners, which are taking a 46% stake in the business for $360 million. Canada Pension Plan Investment Board and Pavilion Capital are co-investors. Groupon will receive $285 million and retain 41%, with management holding the rest.

Competition in the mobile age comes from not only eBay but also traditional retailers looking to go digital and mobile-centric start-ups that have graduated from Groupon-style daily deals to become e-commerce marketplaces. The latter category is led by Coupang, ahead of Ticket Monster and Wemakeprice.

Ticket Monster: Sharper claws

At least 70% of Ticket Monster and Coupang's users access services via mobile devices and both companies surpassed KRW1 trillion in gross merchandise value in 2013. KKR and Anchor's investment values Ticket Monster at $782 million. When BlackRock Private Equity Partners led a $300 million funding round for a minority stake in Coupang last December the valuation was said to be in excess of $2 billion – a substantial premium for the segment leader.

As to what the new investors can do to help Ticket Monster close the gap, a starting point will be the large amount of data the company has collected on its 11 million users. This will guide reviews of sales and marketing, merchant engagement, and the introduction of new products and services. For example, Ticket Monster recently introduced a payment function that means goods can be purchased on the platform without having to enter credit card information multiple times.

"Ticket Monster is seeing significant growth in a market with huge tailwinds," says a source close to the deal. "The opportunity is there but the question is how do they accelerate their efforts in certain areas, and to what extent can the investors be helpful in this process."

Brandon secures super fund support

WITH A$78 BILLION ($61 BILLION) IN assets, AustralianSuper is said to struggle to make fund commitments of less than A$150 million. Yet it is one of several superannuation funds backing Brandon Capital's latest life sciences VC vehicle, which has closed at A$200 million.

Other LPs include Statewide Super, HESTA and HOSTPLUS. Their presence is notable in that the Medical research Commercialisation Fund 3 (MRCF 3) represents the first time in several years that super funds have made new and significant commitments to domestic venture capital.

A key factor, according to Chris Nave, managing director at Brandon, is that the MRCF 3 model allows investors to put meaningful amounts of capital to work. Up to A$50 million will go into 20-30 very early seed-stage investments and the remaining A$150 million is reserved for the start-ups in that batch – probably about half – that make the cut. LPs can then commit up to A$30 million between them to each of the most promising companies.

"If they can follow companies as they become real assets and put in increasing amounts of money then it can make a difference," Nave explains. "Success from this fund may not be just the returns. If we create a company they get to fund through that co-investment mandate, it might end up receiving investment from their expansion and listed funds."

MRCF 1 and 2 closed at A$11 million and A$40 million in 2007 and 2011. Several portfolio companies are nearing product launches or late-stage trials, which would require additional capital. They include Global Kinetics Corp., which has developed a device that tracks Parkinson's disease motor symptoms, and is expected to be acquired or raise a new round to complete commercialization.

Brandon Captial: Life science

The overwhelming majority of Brandon's investments have come through a network of 52 Australian medical research institutes and research hospitals. The VC firm meets with its partners every six weeks and inspects the pipeline of innovations. It has first right of refusal on opportunities presented. Earlier this year, Solvanix, a spin-out from the Garvan Institute of Medical Research in Sydney that has developed a technology for improving drug stability, received A$2 million in seed funding.

"We worked with them for six months on the business plan to shore up the intellectual property position, and then we invested in the technology," Nave says.

Brandon has seen some bumper exits – last year Fibrotech was sold for at least A$75 million, generating a 60x return – but it remains one of few active life sciences VC investors in Australia. Limited government support doesn't help. Nave notes that the government spends over A$8 billion a year on R&D but less than 1.5% of that goes towards commercialization of technologies.

"This is why we rank highly for our research – new publications and patents – but very poorly in terms of translating those ideas into income," he says.

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Brewing excitement

IMM Private Equity thinks Hollys Coffee has what it takes to become a homegrown star in Korea's fiercely competitive coffee house industry. Two years into the investment, rejuvenation efforts appear to be paying off

IN THE KOREAN TV DRAMA "THE FIRST Shop of Coffee Prince," released in 2007, a woman dresses as a man to work at a male-only coffee shop. The show was such a hit that the fictional shop featured in it has since become a popular chain; the first location opened at the storefront where the show's exterior scenes were filmed.

Coffee Prince's popularity was an early sign of the recent explosion of Western-style coffee shops in South Korean culture. Foreign listeners might have been befuddled when rapper PSY's "Gangnam Style" praised "A classy girl who knows how to enjoy the freedom of a cup of coffee," but to Korean audiences coffee houses have social cachet. The ubiquity of such establishments in Korea is all the more remarkable, considering they were virtually unknown just two decades ago.

For Joseph Lee, partner and senior managing director at IMM Private Equity, the prominence of coffee in Korean pop culture has been a reliable icebreaker negotiating the international expansion of portfolio company Hollys Coffee.

"We were talking to a potential Chinese partner," Lee recalls. "He comes into the office – and at our office, all of the coffee mugs have the Hollys logo – and he looks at the logo and starts laughing." Upon seeing the team's confusion, the man explained that he had seen the same logo the previous night in a Korean drama that he watched before his flight from Beijing.

Left behind

Founded in 1998, Hollys is the oldest of South Korea's homegrown coffee chains. Amidst the exponential growth in the industry following the arrival of Starbucks in 1999, the company has maintained profitability but fallen behind its rivals in terms of new store openings. Starbucks had 642 locations as of June 2014, while homegrown brand Caffe Bene had 945 as of April 2014. Hollys' total stood at 439 at the end of 2013.

When it paid $87.5 million for a 60% stake in the company in 2013, IMM was looking to leverage its experience in the food and beverage sector. In 2009 the PE firm had invested in SRS, the Korean franchisor of Burger King and KFC, through a joint venture with Mirae Asset MAPS Global Investments. The two firms paid $42.9 million for a 49% stake in the company.

"SRS was interesting in that Burger King and KFC had different competitive dynamics. Burger King was competing with McDonald's and Lotteria, a Korean conglomerate brand, whereas KFC was competing with dozens of local lower priced fried chicken brands," Lee says. "We had to tailor our business plan to mirror the dynamics of not just the overall food and beverage industry, but sub-segments within the industry that had totally different forces at play."

IMM exited its SRS in 2013 through a trade sale, earning a multiple of more than 2x. After the sale, the rapidly growing coffee shop sector seemed like a safe bet. It was a business where seemingly anyone could make money, almost without putting in any effort.

"If you're a passive owner it could be a good business, because if you're a franchise model, you're not putting a lot of equity capital at risk, and it's a positive cash flow fund model if you have a solid brand and locations," Lee says.

However, the firm had bigger plans for its acquisition than to sit back and watch the money flow in. IMM believed Hollys had a chance to become a market leader.

The rush to open new coffee shops in Korea was in part predicated on the fact that the industry was still growing. Per capita coffee consumption stood at 2.6 kilograms, ranking it 26th in the world overall – behind the USA (3.1 kg), Italy (3.4 kg) and Estonia (4.2 kg). Moreover, in an increasingly crowded market, Hollys' experience gave it an edge. As the first espresso chain in Korea, it had the oldest independent roasting plant and the first coffee academy in the country. It imported its own beans and crafted its own blends, which other independent coffee chains in Korea could not do.

An obvious problem remained in the lack of stores. At the time of IMM's investment, Hollys had 400 locations; Starbucks had opened its 500th shop a year earlier. More worrisome for management was the fact that Hollys only opened 43 stores in 2013, while Starbucks has averaged 80 openings a year since 2011. The firm has since boosted those numbers, expanding to 477 stores as of April 2015; it plans to add over a hundred more by the end of the year.

The control imperative

As important as new stores, however, was the need to deliver a consistent experience across the larger number of locations. This was difficult under the existing business model, as Hollys, like many other Korean coffee chains, mostly expanded through franchising. The approach does offer benefits for a cash-strapped owner, in that the franchise operators put up their own money and assume the capital risk. But it leaves the brand owner with less control.

"If the franchised stores are not managed well or controlled with one voice, so the customer experience can vary between stores," says Jieun Lee, head of marketing for Hollys. "In the long term it's really important to have more of the company-owned stores in order to manage the unified customer experience."

Managing locations directly also means the parent company does not have to share profits with franchisors.

Source: Hollys Coffee

Progress has been slower in this area. While less than 10% of the stores opened in 2013 were company-owned, that number has increased to nearly 20% of the total today. By comparison, every Starbucks location in Korea is company-owned. This direct control also allows Starbucks to skirt rules that forbid franchised stores from opening new locations within 500 meters of other coffee shops.

Hollys has pursued both organic and inorganic expansion, taking over rival brands that target segments it hopes to pursue. One such acquisition was De Chocolate; Hollys is positioning this brand to target take-out customers, so that the core brand's image as a hangout spot is not threatened. IMM helped Hollys source this deal through its network.

"Though Hollys may have had an idea about entering into the take-out market, it was difficult to implement," says Eugene Kim, a vice president at IMM who was seconded to Hollys following the takeover. "Using our network it was much easier to realize this idea."

IMM also hopes to improve the appeal of Hollys among young people, one of the fastest-growing customer groups for the coffee industry. Kim recalls that one of their first steps was to design a new decor for the shops, to make them brighter and more open.

There was also an effort to revitalize the company's food offering. In Korea, where customers tend to stay for long periods in coffee houses rather than ordering drinks to take away, the dining menu is an important factor in attracting visitors.

"The past offerings hadn't really met the consumer needs in full, so we renovated the whole category, and tried to add more menu items, such as the recently launched Dutch baby pancakes," Kim adds. She credits the menu changes for a 5% growth in per-customer spending, along with an increase in overall customer numbers.

Another initiative, designed to boost customer loyalty has seen Hollys revamp its membership program. The company added a social aspect to its smart phone app, allowing members to send coupons to friends, and improved engagement via its Facebook page.

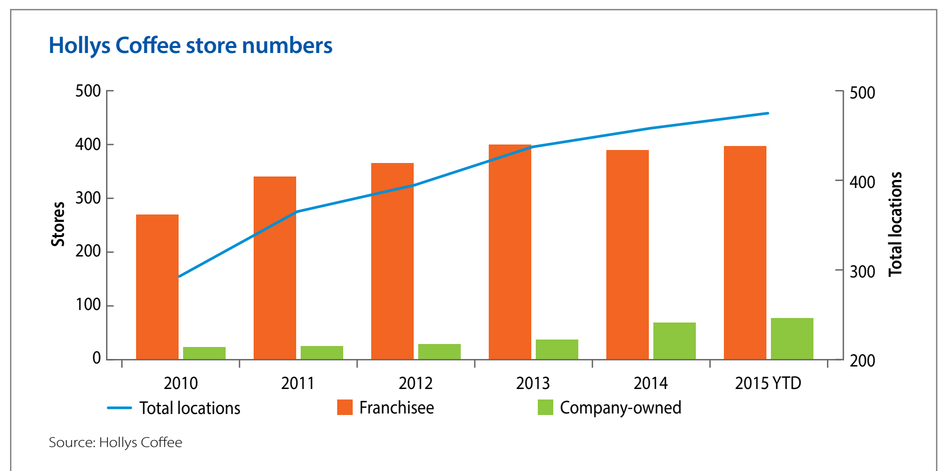
Bigger undertakings include the first Hollys Coffee Festival in 2014, attended by 10,000 people. The festival featured performances by Korean pop stars, along with booths where Hollys baristas demonstrated brewing techniques and foam art.

Kim feels these engagement efforts have paid off, with a Korea Consumer Agency survey earlier this year finding the chain tied second with Starbucks in overall customer satisfaction. (First place went to local discount coffee chain Ediya.)

While Hollys has taken pains to emphasize its homegrown nature in Korea, the company has gone the opposite route in overseas markets, portraying itself as an outpost of Korean culture. Fortunately for the company, the two approaches can be served by the same strategy.

"When we go into countries like China, we don't position ourselves as a head-on competitor to Starbucks. We position ourselves as a true-blue Korean brand. And to do that, we appeal to the affiliation with Korean content, meaning we try to find ways to enhance tie-ups with Korean dramas, movies and pop songs," IMM's Lee says.

Product placement in Korean dramas also plays a major role, with awareness of the brand's logo spreading even to those who have never visited a shop in person.



Taking Korea overseas

Expanding to other countries requires a different structural approach to the one taken at home. Rather than trying to manage stores directly in an unfamiliar real estate and staffing market, Hollys has partnered with local franchisors for its 20 stores in mainland China, and others in Thailand, the Philippines and Malaysia. The company has tapped into IMM's network for partners, in particular a sovereign wealth fund investor that has connected Hollys with franchise partners.

Another area in which IMM has helped Hollys is the acquisition of new talent. The country's chaebols tend to attract the best graduates due to their prestige and resources, and they are as eager to get involved in the coffee business as anyone else. Consequently independent brands like Hollys have to contend with the likes of the Lotte Group's Angel-in-us and the CJ Group's A Twosome Place for the best managers.

"In Korea this talent gap is very significant," says IMM's Lee. The private equity firm's involvement with Hollys has helped raise the company's profile to potential employees through the resources and networks that it commands. Lee says the ability of his firm to help non-chaebol companies like Hollys find talented people "is a clear example of how private equity can positively impact the small medium cap segment in Korea."

IMM is only two years into its investment, and at the moment is still focused on efforts to propel the company into the top three brands in Korea. Though the PE firm invested during a time of slumping revenue, with growth dropping from 50% in 2011 to 14.2% in 2012 and 4.3% in 2013, in 2014 there was a rebound, as revenue increased 17.1%. This outpacing the 10% growth rate of the coffee shop market overall. Hollys' profit has also risen compared to similar companies, which management sees as a vindication of its efforts.

"Hollys' EBITDA growth is the highest among its peer companies – 13% last year compared to about 11% for its peers," says Mingyu Lee, Hollys' head of strategy. He adds that peer companies from a financial reporting standpoint do not include brands like Starbucks and Coffee Bean, whose locations are mostly company-owned.

IMM has targeted a five-year lifespan for its investment, to allow enough time for the new hires it facilitated and the new initiatives to take hold. The firm is confident about the company's performance, as its improvement so far has outpaced its internal projections. Lee says he believes Hollys could generate an exit multiple of more than 3x.

Though it is early to be actively considering exit options, IMM is contemplating a trade sale, similar to its exit from SRS. The thinking is that as Hollys moves up in the industry its value to strategic investors will continue to improve.

"Once we fully implement our business plan, Hollys will be a unique company," Lee says. "When you have hundreds of points of sale in Korea, China and Southeast Asia, it can be a very interesting platform for both strategic and financial investors to own and develop further."

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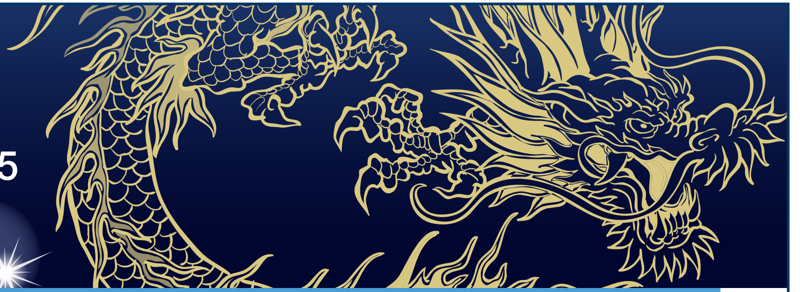

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