

## REALISATIONS

## 2011, a year for exits

*After almost three years of managing assets through the global financial crises, many private equity firms in Asia are looking to sell. They hope 2011 will be the year to do it. By Brett Cole*

Private equity groups claim they have managed their assets carefully since 2008 and made them more attractive to the capital markets or to corporations seeking acquisitions.

The industry also argues the global financial crises have validated the private equity model. Companies backed by financial sponsors have fared relatively better than others over the last couple of years, according to David Patrick Eich, partner and head of Kirkland & Ellis' Asia private equity practise.

Now GPs, their lawyers and their bankers believe Asian markets are increasingly capable of delivering the entire range of exits including dividend recapitalisations, partial initial public offerings and trade sales. Credit is once again more freely available in Asia for leveraged buyouts and leverage can enhance investment returns.

"The exit environment is favourable, especially if, after the global financial crises, you have made companies in your portfolio stronger and more efficient and focused them on markets that provide the best growth opportunities," says Eugene Suh, a partner and the chief operating officer at Hong Kong-based Unitas Capital.

Moreover, many firms have had their investments for several years and are beginning to look towards raising the next fund. They need to establish a track record of returns before seeking new money from limited partners.

"General partners want to drive returns, raise another fund and build their organisations and that leads to sales of assets," says Kirkland & Ellis' Eich. "After several dry years there is

additional pressure to exit investments and return capital to limited partners."

**IPO**

In the three months to March 31, 90 companies in Asia have announced plans for initial public offerings compared with 63 for the same period a year ago, according to Bloomberg data. Forty-four companies priced their IPOs in the first quarter, up 29 percent from 2010 when 34 did, according to Bloomberg.

The China Securities Regulatory Commission has a backlog of more than 1,000 companies seeking approval to list, notes Eich.

Emerging markets-focused firm Actis has invested in a builder and operator of private colleges in China, PSE. Actis last year also bought the Arts and Sciences College of Sichuan Normal University and Lida College and plans to sell these investments through an IPO or trade sale, anticipating "strong demand from capital markets". The London-based firm is also exploring a sale of an asset acquired by its Southeast Asia oil and gas company, APEC.

But the better numbers for IPOs this year in Asia masks significant differences in the reception private equity can expect from investors in different countries.

Hong Kong's stock market is regarded as the most sophisticated in the region compared with India, South Korea, Singapore and other Southeast Asian markets.

"All things being equal Hong Kong is a better market to take money out," says a partner at one of the world's biggest private equity firms who spoke on condition of anonymity.

In China, the Shanghai and Shenzhen IPO markets are highly regulated and the listing process is opaque. Getting a company into the IPO pipeline in China is a complicated, time-consuming process, says Derek Sulger, a partner at Shanghai-based Lunar Capital. That leads many firms to seek corporate buyers of their investments.

Lunar Capital has three companies it is looking to sell, a forestry, a cement and a mining company, all of which are potentially acquisition targets, says Sulger.

Unitas likes sales to corporations, particularly in markets where valuations don't meet their expectations. Stock market valuations in South Korea and Singapore markets are lower than more developed markets in Hong Kong and the US, where Nasdaq is a popular place for private equity to sell their stakes in Asian companies.

For private equity trailblazers doing deals in Indochina, exits are challenging. "It's easy to get your money in but try to get it out," says the founder of a private equity firm based in Ho Chi Minh City who spoke on condition of anonymity. His firm and others have to account for the performance of the Vietnamese dong. The currency has depreciated from about 12,000 to the US dollar to about 22,000 over four years.

**M&A**

Partners at private equity firms believe this year corporations are willing to pay more than the capital markets for businesses that have shown the ability to grow, especially in the last three years.

"If we have a control interest then corporates are interested and it is our

preferred exit strategy,” says the partner at one of the world’s biggest private equity firms. “If we have a minority stake then corporates are less interested.”

Not many large-scale businesses go public in Asia as there are not many investments made by private equity in India and China in which private equity is the controlling shareholder. Regulatory restrictions in both countries virtually prohibit leverage buyouts. The time needed by firms to thoroughly vet investments mean that local Indian or Chinese private firms often beat them to deals.

But in India and China the lack of leverage does not matter. There is so much growth that it means return targets

established by the private equity firms are often quickly hit.

Capvent, a Zurich-based private equity fund of funds, says per capita income levels have more than doubled in China and India in the last eight years.

#### GROWTH

Capvent says Asia’s annual growth is more than 7 percent, including Japan, and more than 8 percent excluding Japan. Citing a Morgan Stanley research report, Capvent also points out Asia contributed to 60 percent of global GDP growth last year. Even in the much-bemoaned Japanese economy, the tragedy of the March 11 earthquake and tsunami may generate momentum for a restructuring of the economy.

For many private equity firms operating in Asia, China remains their focus. They see potential in teaming up with state owned companies who formed capital units, or partnering newly minted billionaires that seek private equity investments.

State-owned companies are working with private equity to globalise their businesses or augment it with an acquisition. A Chinese state-owned company may have a call or put with a private equity firm whereby it has the right to purchase a company.

“I’m a huge believer in the rise of M&A in China,” says Lunar Capital’s Sulger. “PE firms will have the opportunity to exit.” ■

## Unitas cashes in on convenience

Buy the Way, a 24-hour convenience store operator in Korea, recently netted its private equity sponsor Unitas Capital a 2.5x return multiple.

The firm, formerly CCMP Capital Asia, purchased Buy the Way in 2006 for an enterprise value of 180 billion won and sold it for 274 billion won last year to the Lotte group after it paid down 70 billion of initial acquisition finance through internal cash flow generation.

But it had done a lot of hard work to get to that point. Unitas purchased the company from Korea’s Orion Corp, which regarded the retail chain as “non core”, believing it could be run more efficiently and that South Korea was at an “inflection point” with regard to convenience stores. Unitas reckoned South Korea’s working population and university students would increasingly use convenience stores to buy food and drink as average per capita income had risen to almost \$20,000.

South Korea was poised to mimic Japan in the evolution of convenience store sales. In the 1980s cigarettes comprised half of the convenience store sales in Japan. Over the last 20 years, fast food has grown to as much as 40 percent of sales at convenience stores in Japan as people sought snacks, or “grab and go” food between meals or as meals when they came to work or worked late.

The firm hired Jay Lee, a former chief operating officer at Pizza Hut Korea, to run the chain and also sought advice from



*Buy the Way: Unitas triumph*

minority shareholders Li & Fung, owners of Circle K convenience stores in Hong Kong.

Unitas wanted to get Buy the Way away from focusing on a “land grab” mentality, getting as many stores in as many locations as possible, and more focused on customers. Stores were revamped to focus on young women professionals and university women who were, following surveys in Japan, Taiwan and Hong Kong, the most regular buyers of fast food at convenience stores. An advertising

slogan was launched aimed at drawing women customers that promoted Buy the Way as “a place to go for a clean and refreshing break”. “Buy the Way” began to sell more food choices and coffee and as a result, fast food sales rose 35 percent a year and same store sales growth increased between 6 to 8 percent per annum while margins improved because of the sale of higher priced and more profitable items.

Management closed 150 stores that were deemed unprofitable and stressed operational excellence and customer service at remaining outlets. The results were impressive: when Unitas bought the Buy the Way annual sales were 430 billion won with earnings before interest, tax, depreciation and amortisation at 16 billion won; three and a half years later annual sales and EDITDA had more than doubled to 700 billion won and 35 billion won respectively while the number of stores had risen to 1,500 from 980. ■