Private Equity Discussions:
Private Equity | Venture Capital Overview

At the beginning of December 2021, the Pedersen & Partners Private Equity team, together with the Healthcare & Life Sciences, Industrial and Consumer Practice Groups, had the pleasure of welcoming Miranda Tang, Managing Director of Dream Matcher Limited, an advisory firm assisting start-ups and SMEs with growth strategies.

Prior to Dream Matcher, Miranda was the Managing Director of CLSA Capital Partners and Fund Head of ARIA, a series of pan-Asia growth and expansion capital funds. Miranda joined CLSA in 1995 and has over 24 years of private equity, financing and operational expertise in China, India, Vietnam, Indonesia, South Korea, Taiwan, and Singapore. CLSA Capital Partners is the asset management arm of CLSA Securities with AUM of over US$4 billion. The investment focus was on early growth and growth investment strategies in the consumer space, and later funds targeted the Asia Aging theme. For the past two decades, Ms. Tang has reviewed over 8,500+ deals, visited close to 2,000 companies and carried out in-depth due diligence of about 300 companies.

We share our executive summary of the findings below, while expressing our sincere gratitude to Ms. Tang for her valuable contribution.

Overview: Global

Global PE and Venture Capital have endured very well despite the Covid-19 shutdown, particularly since the second half of 2020. Global private equity has been booming, especially in buyouts and exits. Some recent significant M&A deals:

- CVC Capital Partners acquired Unilever's global tea business, Ekaterra, for €4.5 billion (November 2021)
- Clayton, Dubilier & Rice reached an agreement to acquire PwC's Global Mobility Tax and Immigration service business for US$2.2 billion (October 2021)
- Baring Private Equity Asia (BPEA) agreed to buy Tricor Group from Permira for an enterprise value of US$2.76 billion (November 2021).

Mega funds took centre stage – Oaktree Capital Management announced the successful final close of Oaktree Opportunities Fund XI and its related vehicles, with total capital commitments of US$15.9 billion. This year we saw names such as Silver Lake, TA Associates, Hellman & Friedman Capital Partners. Momentum is very strong and estimated to continue into 2022.

Overview: APAC

There are plenty of M&A activities in the APAC region. For example: Blackstone's US$2.3 billion buyout of multinational Takeda Consumer Healthcare (March 2021).

Coincidentally, on the fundraising side we see larger funds being favoured:

- Lightspeed China Partners, raises US$920 million after closing the largest fundraising rounds in its history.
- KKR raises a record US$15 billion for its Asia fund.
- Carlyle announces a target of US$8-10 billion Asia focus fund.

A notable trend over the last few years is that many LPs are trying to consolidate GP relationships. The public market is doing well, and we see the denominator effect taking place; hence, the allocation is also getting bigger. Due to Covid, the performance of branded GPs is up, which may influence the funds to flourish.

Developed economies such as Japan and Australia are arousing renewed interests coming from investors. Exit via secondary, IPOs, and dual listings are all active in Asia. Covid-induced supply chain disruptions in the region remain a very valid concern, especially in the Southeast Asian market, and emergent inflationary trends need to be considered.

Geographic Snapshots

In China, we have seen the regulatory constraints imposed since April 2021. There is a lot of uncertainty due to the geopolitical issues. There is a temporary slowdown in both investment and divestment in China, with valuation taking a beating.

Softbank announced that they have suffered a US$54 billion loss in Chinese tech companies, and so they have paused their investment in China. Local consumption in China is still very strong. US$1.9 billion sales were reported on Double 11 Day – this is a healthy 8.5% increase from last year. On its own this is very good, although lacklustre compared to the 20+% year-on-year growth in previous years.

In India, we are seeing a constant increase in deal size and more attention coming from international investors. There are bigger deals in the energy sector, with larger exits and some very good IPOs. Jio, the telecom platform of the Reliance group is a good example, attracting names like KKR, Silver Lake and Google.

Recently there have been some good IPOs attracting names like Zomato and Paytm, and some eye-catching deals in the energy sector, including Hexaware and Mphasis.

In the third quarter of 2021, there were at least 23 PE or VC-backed exits in India, generating US$7.3 billion return – double the size of the return for the same period last year.

In South Korea and Japan, we note decent performance. VC activities are very active but generally below the radar screen because most of the deals are below US$5 million. There have been a few eye-catching exits this year in Korea, including IPOs of Coupang and Kakao Bank, a virtual bank in Korea. It should be noted that most of the tech and VC deals in Korea are already profitable by the time they go for an IPO or M&A.

Australia, after a long period of silence, now has recorded interest from various US funds such as Matrix Partners which recently invested in Afterpay.

Southeast Asia is the biggest beneficiary as an alternative to China using the "China-plus-One" model, i.e. establishing a hub outside China in case there are any geopolitical concerns in the supply chain. In this region, there is a lag in infrastructure, which also means a lot of potential for investment. In terms of exits, Southeast Asia is also slow, except for Indonesia, which has done well with the Ecommerce platform Bukalapak's IPO and the merged entity of Gojek and Tokopedia, which secured US$1.3 billion in pre-IPO investments.

Investment Trends

Industries relating to healthcare (biotech, biopharma) are currently attracting the attention of PE funds. Certain tech subsectors such as crypto, blockchain, FinTech, Tech, cybersecurity, robotics and AI are also booming.

Co-investment and/or direct investment has become a new norms for LPs. Another phenomenon over the past few years is that the increasing numbers of family offices in Asia are being seen as potential threats to VCs. Mobility is greatly affected by Covid, we are seeing more club deals in Asia. The other feature we are seeing in Asia is continuation funds, which really prolong the traditional fund lifespan. A good example here is Sequoia Capital, which announced that it is raising a public fund as a continuation fund. They want a longer relationship with startup founders, and they are seeing a lot more potential post-fund life or post IPOs.

Over the last two years, we have seen a lot of topics in terms of private debt and related products. There is an increase in distribution of true wealth and asset management, mobile apps and online.

For 2020 and 2021, there are a few distribution-in-kind types of exits post-IPO, although this is usually uncommon in the region. In Singapore and HK, we see exits and fundraising by way of tokenization (STOs).

The most active ESG investors in Asia of the last two years include: Sequoia Capital, Quona Capital, Matrix Partners China, Omidyar Network, Omnivore Partners, Temasek Holdings, Accel India and LGT Impact.

Private Equity Mindset to VC Approach

The biggest change is one of mindset. Private Equity used to be very conservative and focused more on principal preservation. Compare this to the current situation in VC – where investment amount is small, but the potential is big!

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