

SCM Strategic Capital Management AG's latest study "State of the Asia-Pacific Private Equity Markets" investigates the impact of the global financial crisis on the Asian region during 2009 and explores the latest developments in the Asian private equity industry.

Macro environment in Asian economies

2009 turned out to be the 2nd best performing year for Asian public equities on record. Apart from positive investor sentiment, the Asian stock market recovery during 2009 was also backed by attractive underlying economic fundamentals. In Asia, where financial sectors are not impaired, growth has continued to be quite strong. Underpinned by monetary and fiscal stimulus packages, rising middle class population, urbanization, high savings rate as well as increasing intra-Asian trades, most large economies in Asia (except Japan) ended 2009 with a positive real GDP growth percentage. However, the strong growth comes at a price where the resulting inflation becomes the risk currently faced by a number of governments in Asia. To prevent a subsequent asset bubble, the concerned central banks have already started exiting various crisis-era stimulus measures by tightening monetary policy.

Asian M&A and private equity activity

The Asian M&A and private equity markets also proved to be quite resilient relative to its European and US counterparts, as both markets fell relatively less than the global markets. Despite a **59% decline** in Asian private equity **transaction volume** in 2009, **the region has seen a sharp spike in its share of worldwide private equity investment activities.**

In 2009, Asia accounted for 24% of the global private equity market – compared to 5% in 2007. This is due to the relatively smaller decline of transaction volumes in Asia compared to other regions. **Asian players now have equal share in the large Asian buyout market with global firms.** In 2009, the larger deals (USD 1bn+) were yet again split equally among Asian firms and global firms, highlighting the size, competitiveness and increasing execution capabilities of local managers.

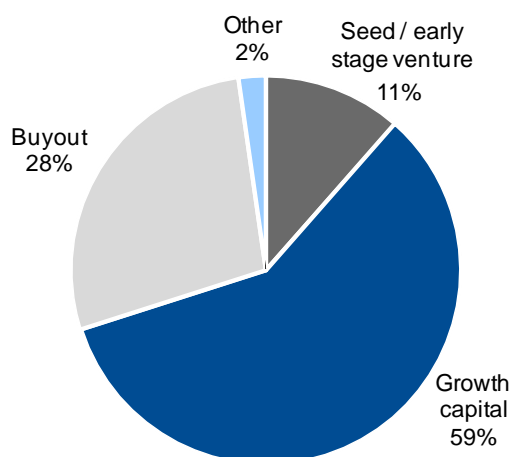
Fundraising and investment trends in Asia

Similar to other markets in the world, fundraising for Asian private equity funds decreased 54% to USD 23bn in 2009, marking the first decline in an annual private equity fundraising in Asia since 2002. Growth capital funds dominated the 2009 fund offerings accounting for half of the funds raised, followed by buyout funds (33%), ventures funds (7%) and others (10%). Geographically, country-specific funds for the first time surpassed pan-Asian funds in terms of amount raised. Particularly in China, RMB funds raised from domestic investors are in full swing for both local and foreign PE firms. Since its launch in 2006, 2009 marks the 1st year where domestic RMB fund pool exceeded those denominated in foreign currencies.

Looking at investment stages [CHART 1], **growth capital investments** dominated the 2009 fund pool and accounted for **59% of all private equity investments in 2009** (57% in 2008). The two principal growth capital markets, China and India, continue to account for the majority of deal volume in Asia, followed by buyouts in more developed countries, such as Japan, South Korea and Australia. Buyouts followed with a 28% share (39% in 2008). The absolute volume of growth capital investments dropped 53% vs. 2008, while the volume of buyout investments declined even further by 68%. The **decrease of buyout activity**

[1] Destination of Asian private equity investments 2009

By equity value



Source: Asia PE Review 2009



was mainly driven by a **significant decline in deal volume in both Japan and Australia** (since the peak in 2006-2007, 2009 marked the 2nd year of significant decline). In SCM's view, **the venture bubble continues to exist**. The venture capital overhang is illustrated by the fact that from 2006-2009, new money raised for venture capital funds was 7.2x the money invested during the same period. This is in stark contrast to buyout funds' 2.2x and growth capital funds' 1.4x in the same period.

Exit environment

Even though it was a subdued market for both fundraising and new investments, **the year 2009 actually proved to be a lucrative period for exits**. Close to USD 15bn was returned to LPs, representing a 44% increase from 2008, resulting in one of the best exit years in Asian private equity. However, the valuation trend has not benefited investors during this turbulent year with average exit multiple dropping to 2x compared to 3x+ invested capital in 2008 (excluding write-offs that would lead to lower exit multiple numbers) [CHART 2].

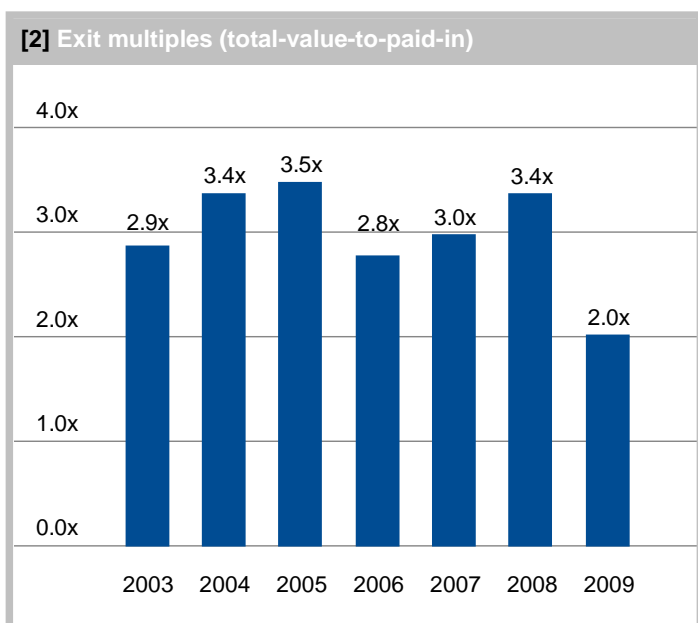
At the backdrop of resurgent public markets, the IPO window reopened towards the end of 2009 and IPOs/quoted equity sales remained the most popular exit route in 2009. Judging from discussions with different GPs, the **IPO pipeline is strong in Asia, especially in China and India**. In contrast, **tradesales continued to generate the most proceeds for exits in 2009**. Year-to-date in 2010, there were already quite a number of large sized tradesale exits announced (although not all completed yet).

With regard to the **sources of exits**, there has been a continuing increase of divestitures in the buyout stage that accounted for 57% of realized capital in 2009. Yet, these exit amounts were generated by only a handful of seasoned private equity firms, indicating that there is still a **relatively small pool of experienced GPs in Asia**.

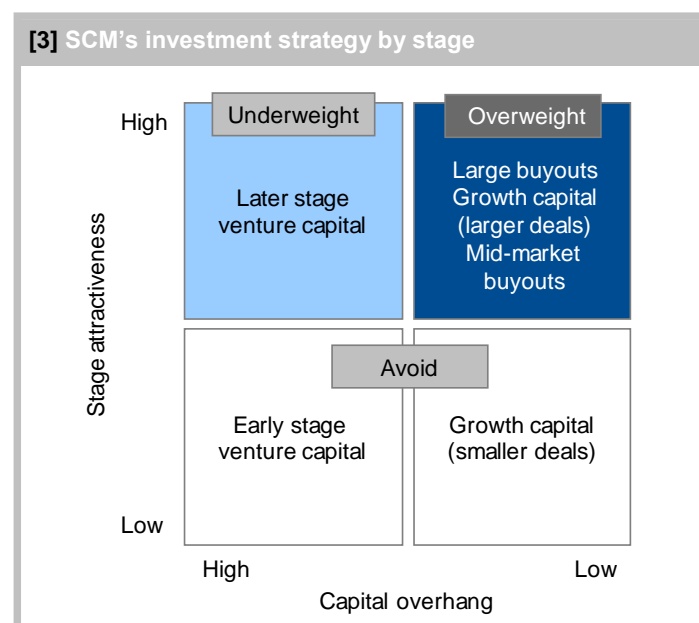
Where to put the money?

SCM has not changed its investment position much in the current environment. We are keeping our mantra that due diligence standards should not be lowered just "to get in" in Asia. We continue to shy away from GPs that are captive in nature or are led by 1st-time unproven teams. Though the Asian private equity market rapidly matures, SCM continues to believe that **the biggest bottleneck for investors remains the relatively scarce supply of seasoned, stable teams** that possess steady track records.

In SCM's view, **large/mid-market buyouts and larger growth capital** continue to be the most interesting private equity segments in Asia for the foreseeable future as deal volumes are expected to increase further along with increasing acceptance of private equity as a capital source [CHART 3]. As mentioned, most of the 2009 exit proceeds were generated by a relatively small pool of GPs in Asia. That means **manager selection** is still the key criterion for **generating excess return for LPs** in this region.



Source: Asia Pe Review 2009



Source: SCM



Contact information

SCM Strategic Capital Management AG

Main Office
Kasernenstrasse 77b
8004 Zurich
Switzerland
Telephone +41 43 499 49 49

If you have any questions or like to discuss the market environment further, please contact:

Joseph Chang
Vice President
chang@scmag.com

SCM Strategic Capital Management Asia Limited

Hong Kong Office
3F Three Pacific Place
1 Queen's Road East, Central
Hong Kong
Telephone +852 2855 6930

Ralph Aerni
Chief Investment Officer
aerni@scmag.com

SCM Strategic Capital Management (UK) Limited

2nd Floor, 1 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Telephone +44 207 099 20 93

If you would like to obtain further information about SCM Strategic Capital Management AG please visit our website at www.scmag.com

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