

AVCJ Private Equity and Venture Capital Report **NORTH ASIA 2010**



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OVERVIEW

Japan: Reality bites for private equity South Korea: The little engine that could

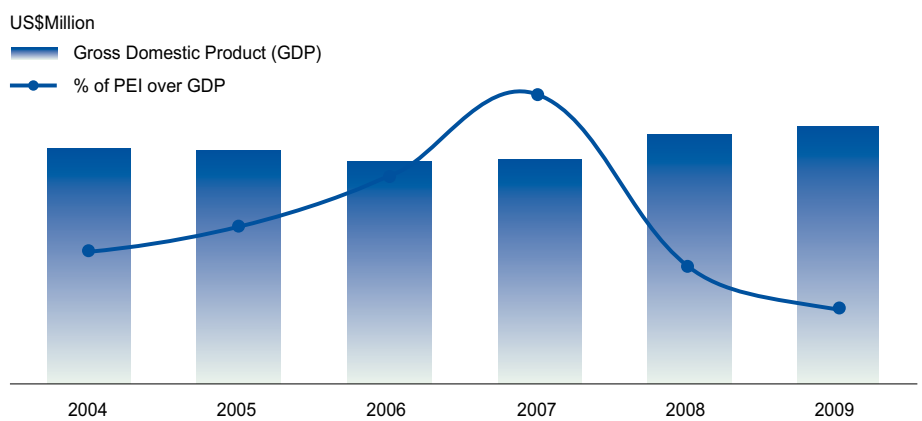
SAMPLE

JAPAN

Private equity in Japan does not have a long history, but the sophistication of the economy and the companies there made it an attractive buyout market through early 2008. Larger companies have strong internal infrastructures and savvy management teams, and therefore business risks are relatively low. And then the GFC happened.

“There’s no question that this is the worst recession in the postwar period,” Japan’s former economic minister, Kaoru Yosano, said after economic contraction results for the end of 2008 were announced. As a result the country started out 2009 under a heavy cloud of doom and gloom. The first quarter wasn’t much better, as banks worried about the default rate of loans, exports plunged, companies moved to cut costs and lay off workers, and GDP fell even further.

FIG 1.1
JAPAN - GROSS DOMESTIC PRODUCT VS. PRIVATE EQUITY INVESTMENT



Source: International Monetary Fund / AVCJ Research

FUNDRAISING AND CAPITAL UNDER MANAGEMENT

Japan feels the pain and South Korea makes the most of a difficult situation

JAPAN

There is no way to sugarcoat 2009. It was bleak, and no one felt it more than those who were fundraising. Private equity fundraising fell a staggering 68% in what is hopefully the low point of a four-year downward slope. From a record \$7.5 billion raised in 2006, 2009 saw just \$1.3 billion in committed capital to Japan-focused funds. And nearly one-third of this, or \$530 million, was directed at Unison Capital Partners Fund II.

As mentioned, a number of players closed up shop in Japan, shuttering offices, looking to wind down operations, and shifting their focus away from the country. The economic situation in Japan deterred many would-be investors as news of an uncertain recovery nationwide put the country on the back foot.

There was one relative win for 2009, which was twelve-year veteran of the Japanese buyout market, Unison Capital Partners, which closed its third fund at around JPY140 billion, or around \$1.4 billion. This was certainly a high point for the firm and the Japanese fundraising market. No other fundraising in 2009 came close. RISA Corporate Solution Fund II announced a final close of \$237 million, just shy of its \$328 million target.

Japan Loan Fund I, which is still in the market, managed around \$200 million of its targeted \$1 billion fund for a first close, while North Asian buyout group Longreach has not announced a close but remains in the market for a \$1.5 billion fund two. Several other names like PEFRI, Daiwa Quantum and Daiwa Securities SMBC are also hitting the pavement after a disappointing 2009, hoping that 2010 will shape up to be an improved fundraising year.

INVESTMENT CLIMATE, DEAL TRENDS AND PLAYERS

Buyout model still takes the cake

South Korea was something akin to the little engine that could in 2009. The country saw more capital deployed by private equity firms within its borders than ever before. In total, \$6.7 billion was invested, compared to \$3.6 billion in 2008. Several \$1 billion plus deals were pushed over the line contributing to such a feat, a testament to the strength of targets in the country. That said, the number of deals was down by more than half (85 in 2008 and just 45 in 2009), which implies that fund managers were far more selective about where they put their money.

Japan, on the other hand, although it saw \$4.8 billion invested in 202 deals, struggled in 2009 as transactions became not only more difficult to due diligence in a falling market, but more difficult to finance. This year is the second in a row that investment has dropped, signaling that many firms bought assets at the height of the market and illustrated by the 2007 standout \$16.6 billion invested in the country.

So while South Korea seems to be opening up and coming into its own, in spite of the downturn (or perhaps because of the downturn with non-core assets coming to market), Japan is doing some reshuffling to re-assess strategy and how the PE model looks in a Japanese context.