

7th annual edition

AVCJ Private Equity and Venture Capital Report

AUSTRALASIA

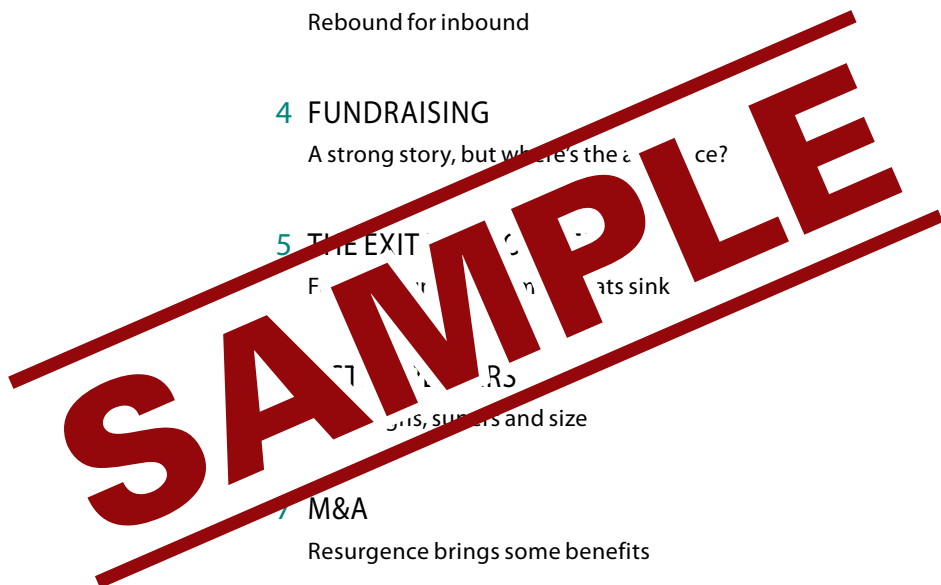
2011

SAMPLE



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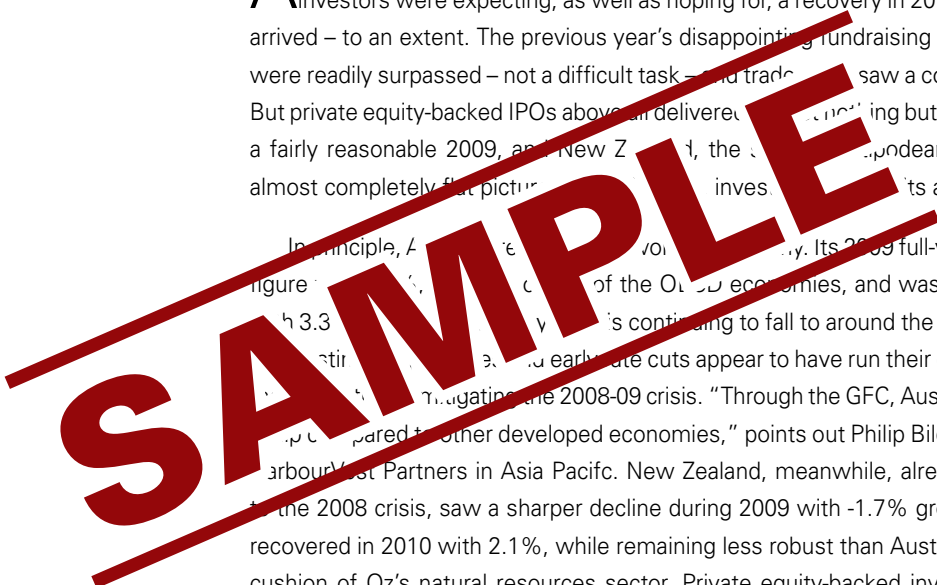
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OVERVIEW

A Time of Challenges

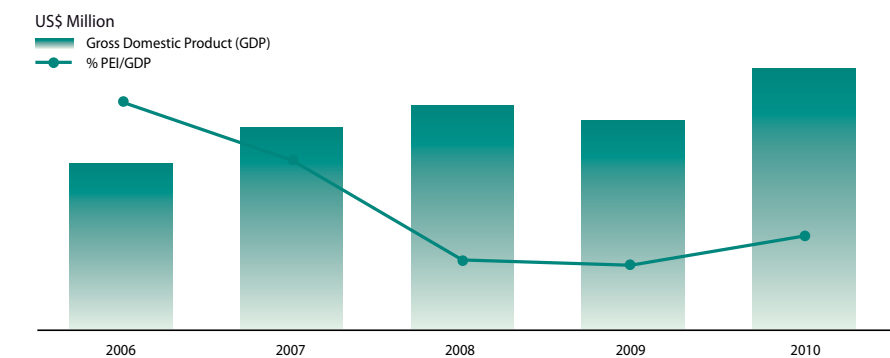
Australian private equity saw a fairly lacklustre 2009, and many industry players and investors were expecting, as well as hoping for, a recovery in 2010. That recovery duly arrived – to an extent. The previous year’s disappointing fundraising and investment totals were readily surpassed – not a difficult task – and trade saw a comforting resurgence. But private equity-backed IPOs above all delivered disappointing but disappointing, after a fairly reasonable 2009, and New Zealand, the island nation in the European market, showed an almost completely flat picture for investors’ investments alike.



In principle, Australia’s economic growth figure of 3.3% in 2009 was improved on in 2010 with 3.3% growth, while New Zealand’s continuing to fall to around the 5% level, and a policy of early rate cuts appear to have run their course after achieving a 2.1% recovery in 2010. “Through the GFC, Australia barely registered a decline compared to other developed economies,” points out Philip Bilden, Senior Advisor of HarbourVest Partners in Asia Pacific. New Zealand, meanwhile, already in recession prior to the 2008 crisis, saw a sharper decline during 2009 with -1.7% growth for the year, but recovered in 2010 with 2.1%, while remaining less robust than Australia without the deep cushion of Oz’s natural resources sector. Private equity-backed investment, meanwhile, comprises just under 1% of overall GDP in Australia, and barely 0.2% in New Zealand. Given levels in other developed markets, especially the US, this suggests great potential still for private equity to become an even bigger part of the Australasian story.

Plus, Australia has perhaps the most direct exposure to Asia’s growth story of any developed nation outside Asia itself. “The place of Australia and New Zealand in the world is changing,” according to Paul Bloxham, Chief Economist, Australasia, at HSBC Bank. “The

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



Source: International Monetary Fund, AVCJ Research

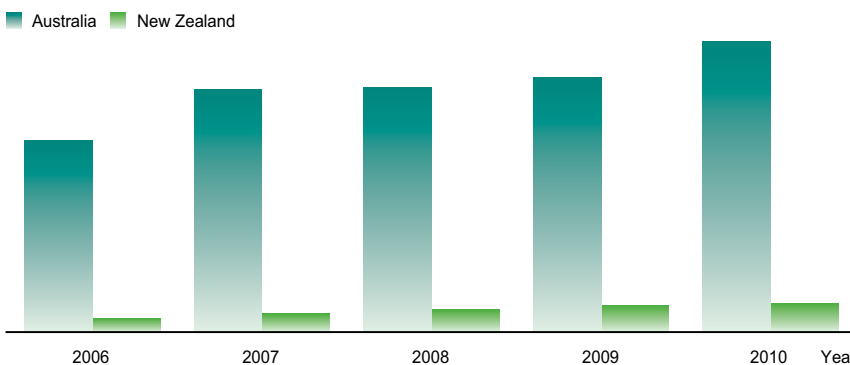
ASSETS UNDER MANAGEMENT AND REGULATION

Stumbling blocks?



Capital raised in the private equity market in Australasia has shown a steady upward trend in the available fund pool in Australasian private equity markets, with incremental growth through 2010, at least for Australia. By 2010, the total amount of capital under management in Australia stood at almost \$24.6 billion, up from \$22.2 billion in 2009, the previous year's total. However, New Zealand showed a far slower rate of growth, rising only to \$2.38 billion from 2009's total of \$2.22 billion, a reflection of the flat fundraising environment and slack deal activity in the second Australasian economy.

FIG 2.1
AUSTRALIA - CAPITAL UNDER MANAGEMENT IN PRIVATE EQUITY



Source: AVCJ Research

Also, the picture of steady growth masks some significant challenges in the Australasian private equity market during the period under review. Reverberations from the Australian Tax Office's abortive raid in November 2009 on TPG Capital's profits from the IPO of department store investee Myer echoed throughout most of 2010. The ATO took until December 2010 to release its final determinations on tax treatment of investors into Australia. And, as Grant Thornton said in a report at the time, the determinations, while technically correct, "do appear to be a direct contradiction to policies the Government has developed to encourage foreign investment into Australia." Government regulation, insists Philip Bilden, Senior Advisor with HarbourVest Partners, is "a very important ingredient as to whether this asset class works

FUNDRAISING

A strong story, but where's the audience?

Private equity fundraising for Australia showed a similar resurgence to investment in the Lucky Country, with 2010's total rising to just under \$2.5 billion, from only \$550 million in 2009. That figure shows at least some life returning to the market, though it surpasses 2008's \$2.44 billion, to say nothing of 2007's \$7.45 billion. New Zealand industry players can take comfort from the fact that 2010's total capital raised, while well down on 2009's \$275 million, is still far better than 2008's \$100 million, when no money was raised, or 2006, when only \$40 million was garnered. The picture is slightly more optimistic for Australia, and dispiriting for New Zealand.

For the rest of the world, nationally, excepting possibly China, recovered only slowly from the 2008-09 downturn. Many investors appear still cautious and short of funds into the asset class. But Australia in particular has for the past couple of years of the disadvantages, hitherto little realized, of having a captive audience of well-financed domestic LPs. GPs now find themselves hostage to the same set of secular trends among their investor base, some of them stemming from the issues of their own asset class, others entirely separate.

Many of the smaller super funds, latecomers to private equity, jumped on the bandwagon just before it rolled off the cliff in 2008. Themselves now facing consolidation pressures as larger superannuation providers pursue a rollup strategy driven by the mantras of economies of scale and lower fees for policy-holders, some supers can be forgiven for reassessing their commitment to an asset class that many never really understood, and which delivered sub-par performance for them over the short period that some committed to it. For this category of investor, still unaccustomed to the characteristics of PE, the arguments in favour of riding out the cycle for the sake of long-term performance simply fell by the wayside.

As Les Fallick, Founder and Chairman of Principle Advisory Services, confirms, "the real issue is that there's been a little bit of a structural shift in investor sentiment about private equity, partly driven by fees, and partly driven by the euphoria of the period 2002-08, when private equity was flavour of the month. Lots of investors loaded up very heavily, without necessarily understanding the illiquidity and risk involved."