

6th annual edition

AVCJ Private Equity and Venture Capital Report **AUSTRALASIA 2010**

SAMPLE



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OVERVIEW

As recession-proof as the first world gets

At the end of December 2009, The Hon Wayne Swan, Treasurer of the Commonwealth of Australia, penned a note to the country that pointed to a little known fact before the financial crisis, and perhaps what is one of the country's best selling points after the crisis.

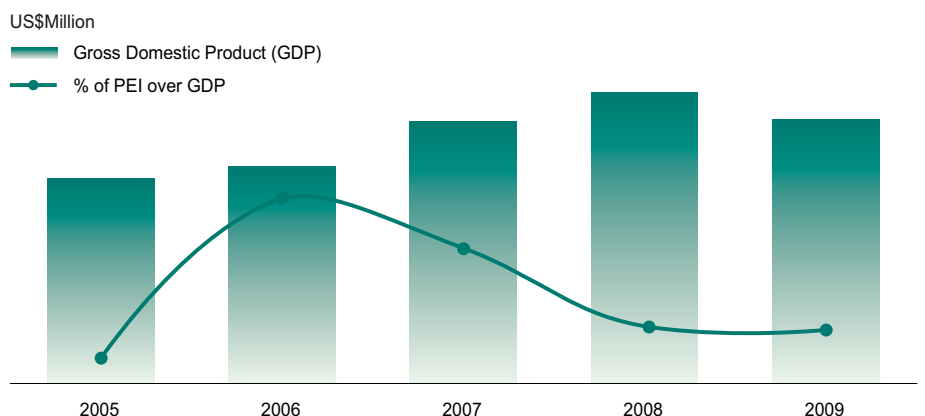
"The September quarter National Accounts marked the beginning of Australia's 19th consecutive year of economic expansion – a feat matched by no other advanced economy over this current period." That's due to a well-timed stimulus package and far less in the way of risky investments. Australia continued to grow in the face of panic in other nations around the world.

That doesn't mean the country was immune, but it does imply that there "is that there is a macroeconomic resilience in this market," said Julian Knights, Managing Partner, KKR Australia.

In addition to the economic strength of the Australian market, the country is also supported by a Western legal system, honest fiduciary, and an established way of doing business. And, said Justin Reizes, Partner, KKR Australia, "forgetting the specifics, it's much safer here than in China or India."

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



**GDP data refers to fiscal year (April 1-March 31) and Private Equity Investment data refers to year-ended on December 31
 Source: International Monetary Fund / AVCJ Research

ACTIVE PLAYERS

Domestic-only opens up to the world

Because the Australian market is dominated by buyout funds, the likely candidates continue to top the list of largest funds by capital under management. PEP raised the largest dedicated country fund in the world in 2008. Archer Capital, Ironbridge, CHAMP and Catalyst also stand out – sometimes in more than one instance – as second, third and fourth funds look to exit their portfolios, overlapping with the raising up of a new fund.

Also notable is that of the top 20 funds, only five are not buyout funds. Three fund-of-funds pop up on the list, as does one training fund and one special situations group, but Australia and New Zealand make up the remainder of the list, something foreign funds have begun to take note of.

CPPIB topped the global list of deals completed and staked its name on Australia with a \$5.5 billion buyout of Macquarie Communications Infrastructure Group. Down on the list, Lazard bought Terra Firma bought the Packer family cattle ranch, Consolidated Pastoral Company, for \$272 million. One would imagine Guy Hands is wishing all of his investments were as sound. Of domestic fund participation, Crescent Capital Partners made the only investment of over \$100 million, with Ironbridge Capital coming in second by deal value at \$68.5 million.

Lend Lease Ventures takes the cake for most deals at four in 2009, while RCF Management out of the US made three investments in the region. Without a doubt, local firms expect more participation by foreign investors in the coming years, and as Ironbridge's McKean said, "Long-term, it would be good to see more participants."

In New Zealand, international firms made only bite-sized investments. On the contrary, domestic investors made much larger statements, most notably with New Zealand superannuation fund investing \$493 million in one deal, and Australia's QIC Global Infrastructure Group putting \$245 million to work.

Though the top two slots for investment by deal value go to Aussie players, Kiwi funds certainly did the greatest number of deals. Endeavour kept itself busy with eight investments over last two years, and Direct Capital made six.

Unsurprisingly, when it comes to LP activity, local pension funds and fund of funds are by far the most active. Although critics maintain Australia and New Zealand funds have a 'special relationship' with their local LPs, those on the ground argue that this arrangement was born out of necessity. Joe Skrzynski, Founding Partner of CHAMP Private Equity

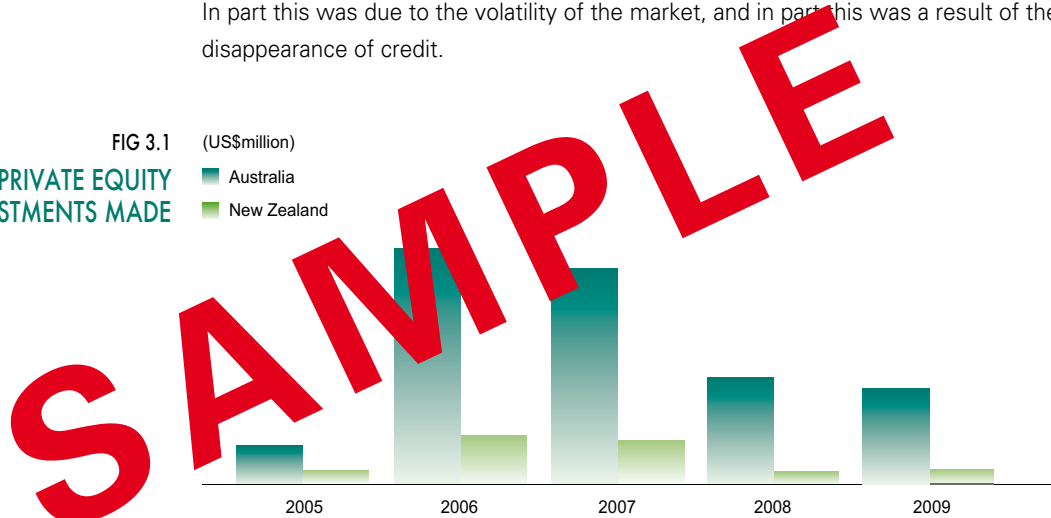
INVESTMENT CLIMATE

Buyouts reign supreme

There is no beating around the bush. Last year was not marked by a staggering number of deals. Rob Nichols, Managing Director at Tasman Capital Partners explained, "People spent time on their portfolios; looking at cashflow forecasts and handling any problems." In part this was due to the volatility of the market, and in part this was a result of the near disappearance of credit.

FIG 3.1
AUSTRALASIA - TOTAL PRIVATE EQUITY
INVESTMENTS MADE

(US\$million)
■ Australia
■ New Zealand



Source: AVCJ Research

Australia is a buyout market, which means the model relies on leverage at some point. However, as 75% of the current outstanding debt is held by foreign banks – many of whom exited stage left at the onset of the global economic crisis – and the four pillar banks tightened their purse strings accordingly, deal volume fell considerably. For all intents and purposes deal value did as well, but CPPIB's \$5.3 billion deal bolsters the final number quite a bit.

With just 232 deals completed over buyout, growth and venture in last two years, firms were feeling the effects of a down market, even if the Australian economy was not. By value – and taking out CPPIB's massive deal – the grand total of private equity investment stands at \$1 billion in 2009.

New Zealand saw similar trends, with deal volume down from 27 transactions in 2008 to 17 in 2009. Investments by value have been on a downward slope from a peak of \$3.2 billion in 2006 to last year's \$742 million. One trend that has been on the up, at least anecdotally, is the rise of angel investors making small but significant contributions to existing businesses in the country. With Kiwi fundraising down on the back at the first sign of problems in the world, it may take a year or so for the climate to pick back up enough for notable investments to be made again.