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ASIAN BUYOUTS INVESTING

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CONTENTS

ABSTRACT

1. July 2002 not only marked the fifth anniversary of the 1997 Asian financial crisis, but also the fifth birthday of the Asian buyout market. The crisis precipitated a surge in corporate restructuring and reform across the Asian Pacific region, generating deal flow for buyout investors, reflected in a dramatic 250% increase in M&A activity, from $66 billion in 1997 to $230.8 billion in 2001.

2. However, because the business is only five years old, most Asian buyout managers are still investing their first funds and need further seasoning before we would be comfortable recommending them to investors. Many groups lack operational value-adding skills, portfolio management experience, and have yet to demonstrate that they can generate attractive rates of return. Nevertheless, there are also some encouraging indications of strong performance from a few funds that are now realising investments made soon after the 1997 crisis, which suggests that this infant may grow into a strapping youth within the next three to five years—and so investors with an eye to the future should find it worthwhile to stay current with developments in the region.

3. To date, most buyout opportunities have been concentrated in three countries, South Korea, Japan, and Australia. Among these, the greatest activity has been in South Korea, whose willingness to embrace reforms and restructure its domestic economy has attracted substantial foreign capital. In contrast, Japan still has not bitten the reform bullet despite a decade in the economic doldrums, although recent indications of increased corporate restructuring have been sufficient to attract the attention of the larger regional buyout investors. Much is expected from Japan, since the world's second largest economy should provide significant buyout opportunities, but this potential is unlikely to be realised until reform and restructuring measures are fully embraced. In contrast, the much smaller Australian market is relatively well-developed and offers attractive opportunities to both local and regional managers (although the former tend to dominate deal flow). Elsewhere in the Asia Pacific region, including Southeast Asia and Taiwan, buyout opportunities are few and far between.

4. Historically, Asian private equity has equated to expansion capital investments, which account for 41% of capital deployed in the region. However, although it currently accounts for only 18% of capital deployed, buyout investing is now gaining some traction as more private equity groups target buyout transactions and some are even defining themselves as buyout specialists.

5. While "buyout" implies the assumption of a controlling interest in the target company, in Asia investors have had difficulty obtaining control positions since the dominant shareholders, whether families or conglomerates, have generally been unwilling to relinquish effective control even when they need to dispose of some holdings. As a result, most Asian private equity managers have painful scars that

bear witness to the ineffectiveness of minority investments in immature markets. Looking forward, successful managers will be those who have learned this lesson and have developed capabilities that enable them to attain and successfully manage control positions.

6. In addition to the issue of control, buyout investors continue to face significant obstacles in Asia, not least of which is the poor quality of much of the region's deal flow. Moreover, increased competition for large transactions is pushing up valuations, particularly in the more active markets where better deals may be found. Incumbent management teams are often resistant to buyout offers, even when they might stand to benefit, but cannot readily be replaced since many Asian countries suffer from a dearth of capable, experienced managers. Investors must also figure out how to ensure that gains achieved from successful investments are not offset by currency depreciation, and they cannot afford to ignore the recurring political turmoil in many parts of Asia, which sometimes constitutes an insuperable "risk premium."

7. Because they have superior scale, experience, resources, and infrastructure compared to those of smaller local private equity firms, regional players seem more likely to succeed in exploiting buyout opportunities across Asia. By avoiding countries where the environment for buyout investing is poor, regional investors have the flexibility to concentrate their efforts on more attractive opportunities wherever they arise. Despite stronger on-the-ground networks, local investors face increased competition from these larger regional firms, especially in South Korea, Japan, and Australia.

SUMMARY

The Asian Private Equity Market

Although institutional-quality private equity firms have been active in Asia for some 20 years, the Asian private equity market remains underdeveloped compared to those of North America and Europe. In 2001, Asian private equity accounted for only 8.0% of the total amount of private equity raised on a global basis, falling well short of Europe's 22.7%[1] and North America's 67.9%. Similarly, Asia accounts for only 11.9% of the total amount of private equity invested during 2001 with Europe accounting for 21.9%[2] and North America dominating with 63.0% (see Exhibit 1).

The underdevelopment of the Asian market is also apparent if one looks at private equity[3] as a percentage of GDP in each region. In 2001, total private equity capital as a percentage of GDP measured 0.94% in North America, 0.38% in Europe, and 0.16% in the Asia Pacific region (see Exhibit 2). In other words, even when scaled to relative GDP, the Asian private equity market is approximately one-sixth the size of the North American private equity market and just under one-half the size of the European market.

Further analysis reveals that seven countries dominate the Asian private equity market: China (including Hong Kong), Japan, South Korea, Australia, Taiwan, Singapore, and India. These seven account for 95% of the total private equity raised (and 98% of the money invested) in Asia in 2001 (see Exhibit 3).

However, although private equity markets in the Asia Pacific region may be relatively immature, they have considerable promise. The region accounts for about 25% of world GDP, compared to almost 30% for Europe and 35% for North America (see Exhibit 4), but its growth rate is substantially greater than that of the other two. Moreover, Asia's population is more than three times that of North America and Europe combined, with 42% of the world's population concentrated in the seven countries noted above (see Exhibit 5). There can be no question that Asia's large and growing domestic consumer markets offer attractive potential investment opportunities for private equity investors.

[1] Includes Western Europe at 22.5% and Central & Eastern Europe at 0.2%.

[2] Includes Western Europe at 21.6% and Central & Eastern Europe at 0.3%.

[3] Private equity in this context refers to both venture and non-venture private equity.

Development of the Asian Buyout Market

Historically, Asian private equity managers have allocated the vast majority of their funds to expansion-stage financing. As of 31 December 2001, 41% of total private equity investments in Asia had been allocated to expansion-stage financing with start-up financing accounting for 21%, and buyout financing only 18% (see Exhibit 6). Comparisons with the levels of buyout financing in the United States (38%)[4] and Europe (51%)[5] indicate just how underdeveloped the Asian buyout market really is. However, we would note that for all practical purposes Asian buyout investing only dates from 1997—an offspring of the Asian financial crisis.

Pre 1997

Prior to the 1997 financial crisis, the Asian private equity industry was highly fragmented, consisting of a mixture of small funds typically ranging in size from $50 million to $200 million. During this time, most private equity groups explored a mixture of deals from occasional start-up investments to development/expansion capital and pre-IPO rounds of financing. Transactions normally involved small minority stakes and were often structured as convertible bonds with little or no ordinary share holdings. Buyout opportunities were few and far between, with few funds large enough to even consider leading major buyout transactions.

Spin-offs and disposals of non-core holdings, normally the bread and butter of buyout investors, were difficult to find in Asia, since the majority of conglomerates pursued empire-building strategies based on diversification into a multitude of unrelated businesses (a business model long since discredited in the United States). The means to do so was in many cases provided by rampant protectionism, which helped to fuel the fire of excessively bullish business sentiment, and by relatively strong equity markets (see Exhibit 7) and easy to access debt, which resulted in unusually low costs of capital.

With deal flow limited and buyout investing poorly understood, private equity groups typically invested across multiple financing stages. Apart from minority expansion capital investments, one of the more common strategies adopted by many such groups was to negotiate discounts on entry prices for IPO candidates, priced on the basis of forecast price earnings multiples. Once the private equity investor had secured a position in the company, the objective was to achieve a 2x return on the initial investment, typically within 12 months, often achieved through structured exits involving pre-arranged put and redemption arrangements.

[4] Sources: *National Venture Capital Association Yearbook* and *Buyouts*.

[5] Source: *European Venture Capital Association Yearbook.*

Post 1997

Anticipating a substantial increase in buyout opportunities in the wake of the Asian financial meltdown, a number of larger global private equity groups moved into the region after 1997, while many local private equity firms also began to redirect their attention towards potential buyouts. The consequent expansion of the Asian private equity industry was evident in the increase in fund sizes as many Asia-focused private equity groups sought to raise funds in the $500 million to $750 million range, compared to $150 million to $200 million prior to 1997.

The emergence of corporate restructuring during the course of 1998 seemed to validate these expectations of an emerging buyout market. However, although corporate restructuring has continued, with conglomerates recognising the need to refocus on their core competencies, this has not yet triggered the anticipated tidal wave of buyouts because buyers and sellers have generally remained far apart on the question of price—although the significant decline in global equity valuations in the past two years has served to narrow this gap as sellers have become more realistic about future expectations.

In addition, debt financing is now more easily available to financial investors in Asia, and revisions to legal and tax regimes have improved the climate for buyout transactions in several countries. M&A activity across the region increased fourfold from 1997, when there were $66 billion in disclosed transactions, to 2000, when transactions exceeded $305 billion (retreating to $231 billion in 2001) (see Exhibit 9). Relative to the rest of the region, Japan and North Asia (including China/Hong Kong, South Korea, and Taiwan) have provided most of the recent M&A activity (see Exhibits 8 through 15). Together, these positive developments have helped fuel recent buyout activity both in terms of the number and size of transactions—although at a more modest level than originally expected.

According to figures released by *Asia Private Equity Review*, some 16 buyout transactions valued at $893 million were recorded during 1998, a year after the crisis. Although the number of transactions peaked the following year, with 44 deals valued at approximately $2.7 billion, the value of the 40 deals completed in 2000 rose to $4.0 billion. In 2001, however, only 36 buyouts were completed, with an aggregate value of $2.7 billion. In light of these data, it is perhaps not surprising that although buyout activity has clearly increased since 1997, few private equity managers have dedicated their time exclusively to buyouts, choosing rather to continue investing across a broad range of investment strategies as opportunities occur.

Minority vs. Control Positions

Historically, private equity investors seeking control positions in Asian target companies have faced numerous obstacles. Rather than relinquish control, most sellers of businesses—particularly family- and state-owned enterprises—preferred to sell minority stakes as a means of acquiring additional (often much needed) working capital. More often than not, private equity investors accepted this situation, with the result that their minority interests were dependent on the good faith of majority owners whose own interests might lie in different directions. Many of these chickens came home to roost when the Asian financial crisis prevented many families from living up to earlier commitments, leaving minority investors with little or no alternative but to watch powerlessly from the sidelines as their investments evaporated. Asia's recurring and well-documented problems of poor corporate governance and unreliable legal recourse simply exacerbate the difficulties minority investors face in trying first to secure and then to enforce their minority rights.

In recent years, however, private equity investors across Asia have tried to move away from minority investments, participating instead in syndicated transactions involving a number of financial investors who between them hold controlling positions in target companies. Where they have succeeded, they have obviously secured better protection of their interests; more importantly, however, they also create the opportunity to work with management teams to implement value-adding strategies, and to control the method and the timing of their exit from these investments. From the perspective of potential limited partnerships, this trend is an encouraging development—and one we expect to persist as buyout investing expands across Asia.

Factors Impacting Asian Buyout Investing

Four critical ingredients necessary for successful buyout investing are sustainable deal flow, strong management, demonstrable value-adding strategies, and viable exit routes. Additional important components include the availability of debt, currency risk management, buyout experience, and company valuations.

Deal Flow

As noted above, deal flow is thin in the Asia Pacific region. To date, most buyout deals have occurred in South Korea, Japan, and Australia, but since these markets are known to provide potential buyout opportunities, deals tend to be competitive, richly priced, and sold at auction. Selective buyout deal flow is occurring in Taiwan and certain parts of Southeast Asia. However, increasingly even these deals are being shopped around the larger regional private equity funds, which often find themselves competing with strategic investors who seem to be regaining their appetite for acquisitions. Moreover, sellers often prefer strategic, as opposed to financial investors, since the former may provide value-adding operational expertise in addition to new capital, while the latter have generally failed to demonstrate any value-adding capabilities.

Historically, private equity deal flow in Asia has come from four main sources: financial restructuring and distressed sales,[6] corporate rationalisation,[7] replacement capital,[8] and private investments in public companies (PIPES).[9] However, deals are increasingly being initiated internally by management teams, leading to more deal flow from sources such as platform investments,[10] management buyouts (MBOs), and management buy-ins (MBIs).

It is really only within the last four years that MBOs have become more acceptable as a means of acquiring businesses in Asia. Prior to this, management did not fully understand the extent to which they might gain control over their own destinies. More recently, however, management teams have become more exposed to international practices, leading to an increased awareness of the benefits private equity investors can provide in helping them shape their future through an MBO of their existing business. This is increasingly evident in South Korea, where local management teams understand and appreciate the buyout concept almost immediately. Consequently, MBO deal flow is expected to pick up momentum across Asia in years to come.

On the other hand, it will probably be some time before MBIs become an acceptable source of deal flow in Asia since good managers in large Asia-based companies are not yet willing to risk moving to promising companies lacking management expertise. Eventually, however, private equity firms could well prove the catalyst for an MBI culture in Asia as managers from successful MBOs look for additional opportunities after their first experience with buyout partnerships.

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[6] This is when distressed companies are forced to sell in order to repay debt. Distressed sales have been popular in Japan, South Korea, and parts of Southeast Asia.

[7] When the value in a conglomerate is no longer evident, non-core holdings are sold so that the company can focus on its core competencies. Globalisation and deregulation trends are the main motivations driving these sales since companies question their empire-building strategies, preferring rather to pursue value creation as leaders in the area of their core business.

[8] When succession issues arise in family-owned businesses and non-founders take control of the helm, they often show more willingness to dispose of the businesses entirely or at least in part.

[9] PIPES are becoming increasingly popular in Asia. They are driven in particular by management's continued disappointment with public market liquidity issues, poor analyst coverage, and constant undervaluation of company share prices.

[10] Companies formed to benefit from local protection (tariff protection) but harbouring global aspirations know they will lose their local protection when they decide to expand globally. Therefore, the need arises to form platforms to finance future roll-out plans followed by an eventual consolidation of the business, as has recently been seen in the semiconductor field.

Management Teams

At present, however, opposition from incumbent managers remains a significant barrier to the wider acceptance of buyout investing in Asia. Rather than focusing on well-documented evidence from the United States and Europe, proving that MBOs can improve overall company performance, management teams remain concerned about their future job security in the event of a sale to financial investors. It should be recognised, however, that such fears are not unfounded, since the quality of Asian business managers is relatively poor, and private equity managers often feel the need to strengthen the management team to protect their investment. Finding qualified candidates is a constant challenge that is exacerbated by the lack of management mobility throughout Asia. However, this barrier seems to be slowly crumbling, particularly as more Western-educated Asian professionals return home, enhancing the quality of local management talent.

Operational Experience

A significant number of successful private equity firms in the United States and Europe have at their disposal investment professionals with a combination of deep financial, operational, and consulting experience. These complementary skills help ensure that private equity managers are better able to provide financial, operational, and strategic advice at the investee company level contributing significant value in addition to the capital injected into the business. In contrast, Asian private equity firms have historically been more heavily staffed with professionals from financial backgrounds lacking both operational and strategic consulting experience. Financial expertise may suffice for minority investments, but Asian private equity managers will need to develop significantly better operational capabilities to make control buyout investments successful going forward.

Exit Environment

Having overcome the deal flow and management hurdles, Asian buyout investors are then faced with the challenge of identifying suitable future exit routes for their investments. In the United States, exits via IPOs and trade sales have been the preferred routes, while in Europe IPOs have been more difficult to achieve and so managers have sought instead to identify a number of potential trade buyers early in the due diligence process, effectively mapping out their exit route prior to making the initial investment. Asian fund managers have fewer exit options, with regional stock markets and multinationals providing the main source of IPO and trade-sale activity, respectively.

Asian investors historically have viewed the public markets as the main avenue for achieving exits, driven principally by the minority pre-IPO investments that historically dominated the Asian private equity landscape. However, the Asian financial crisis and the subsequent global equity bear market has impaired the reliability of this exit route. In addition, many Asian exchanges have onerous lock-up requirements and relatively poor liquidity, which make it difficult to effect a smooth and timely liquidation of large stock holdings (see Exhibit 16). IPO activity across Asia's regional exchanges has historically been concentrated in Japan and North Asia (China/Hong Kong, South Korea, and Taiwan) with Southeast Asia, Australasia, and India lagging substantially behind. Over the last ten years pan-Asian IPO volume has averaged $36.1 billion per annum. In more recent years, Asian IPO volume peaked at $49.2 billion in 2000, then declined 43% to $28.0 billion in 2001 (see Exhibits 17 through 22).

The lack of viable exits is one of the major causes of poor performance for private equity investors in Asia. As a consequence, they are increasingly pursuing more innovative realisation methods, with some groups opting for a leveraged recapitalisation in order to extract some capital from the business—enough, for example, to recover the initial investment, with future gains expected from subsequent realisations.

The obvious exit route—trade sales—has been blocked by the pervasive weakness inflicted by the Asian financial crisis, which impaired the ability of many potential buyers to finance or absorb acquisitions. That said, two buyout investments have already achieved successful trade-sale realisations during the first six months of 2002, providing much needed encouragement that five years after the birth of the Asian buyout market, successful trade sales can be achieved. Increasingly, Asian buyout managers are identifying potential buyers earlier in the due diligence process, and still view those U.S. and European multinationals planning to expand across Asia as the prime candidates.

Debt Availability

Although the availability of debt financing has certainly been a problem in the past, banks have evinced a greater willingness in recent years to lend to leveraged buyout investors. Increasingly, more attractive debt financing rates are becoming available with some private equity investors negotiating debt financing levels low enough to allow cash-flow generative businesses to quickly repay debt, locking in early value for the investors. Ultimately, easier access to debt should improve the performance and lower the risk of private equity firms, especially in comparison to earlier investments that had to be financed 100% with equity.

Currency Risks

Another important consideration for Asian private equity investors is controlling foreign exchange effects. Since capital gains from well-performing Asian investments run the risk of being wiped out by foreign exchange movements, some investors attempt to hedge or structure their investments in ways that limit the direct impact of currency movements. Investments in the more developed markets of Japan and South Korea offer opportunities to hedge against currency risk, but in less developed countries with more vulnerable and volatile currencies there is often no cost-effective way to hedge currency risk.

Valuations

In general, average EBIT entry multiples across Asia have been lower than those in the United States and Europe. Since 1995, the U.S. and European EBIT entry multiples have averaged 7.0x to 8.0x,[11] while anecdotal evidence indicates that Asian buyout transactions have been completed nearer EBIT entry multiples of 5.0x. In addition, the less-developed buyout markets in Asia typically offer private equity investors better entry valuations, often with EBIT entry multiples less than 5.0x, but these deals do come with increased execution risks.

Leading Asian Buyout Markets

In contrast to its diffusion across Europe and North America, buyout investing is concentrated in just a handful of countries in the Asia Pacific region. To date, three countries have emerged as the leading markets: South Korea, Japan, and Australia. To a much lesser extent, buyout investing has also occurred in certain countries in Southeast Asia and Taiwan.

South Korea

Prior to the Asian financial crisis, the South Korean economy was largely domestically funded, ruled by *chaebols*[12] and principally engaged in low-end exports. The trauma resulting from the 1997-98 crisis inflicted a severe blow both to the country's economy and to its confidence in long-standing business practices. The South Korean *won* depreciated 49% in 1997, falling from *won* 864:US$ to *won* 1,695:US$. At the same time, share prices plummeted with the Korean Stock Exchange Composite Price Index (KOSPI) declining 54% from a level of 647.1 to 297.8 during a nine-month period from October 1997 to June 1998.[13] South Korea's currency and stock market declines coincided with massive levels of maturing

[11] For a more detailed analysis of average EBIT entry multiples, refer to two recent Cambridge Associates reports entitled *U.S. Buyouts Investing* (2002) and *European Private Equity Investing* (2002), both of which are available on our website: www.cambridgeassociates.com.

[12] *Chaebols* are state-backed, diversified conglomerates of many companies clustered around one holding company, with extensive cross-shareholdings among the component parts. The holding companies are often family owned. Prominent examples include Samsung, LG, and Hyundai.

[13] Datastream International.

short-term foreign loans, estimated to be in excess of $100 billion, effectively bankrupting the country which at the time only held approximately $10 billion of foreign reserves. Faced with financial ruin, the South Korean government was forced to embrace significant reforms to restructure the economy. The World Bank and the International Monetary Fund provided a $58 billion bailout package and assisted the country's government in accelerating the opening of its financial and equity markets to foreign competition and foreign investment. The newly elected government of President Kim Dae-Jung[14] moved quickly to reform and restructure South Korea's financial and corporate sectors to increase transparency, accountability, and efficiency. Significant pressure was applied to *chaebol* chieftains forcing them to reduce the size of their empires, slash their debt, and sell off non-core businesses in the process.

Today, South Korea's business landscape stands radically transformed largely due to the quick reaction of the government in dealing with the financial crisis. Of the 30 largest *chaebols*, 16 have been shut down or radically downsized. The government moved swiftly to free the banking system of non-performing loans, closing 500 of the 2,100 financial institutions cluttering the banking industry in 1998. Today, only half of the 24 major city banks still remain and the newly solvent, recapitalised banks have plenty of capital for new loans to consumers and small businesses, setting in motion a spending boom that is providing the economy with an improved balance between exports and domestic consumption. Promising trends include the continued consolidation of the banking sector, a rapidly expanding information technology sector, a more fluid labour market, and significant increases in foreign direct investment.

The country's stock market has recovered from the financial crisis, with the KOSPI increasing 149% from a level of 297.8 at the end of June 1998 to 742.7 at the end of June 2002. The South Korean *won* has appreciated 29% from an exchange rate of *won* 1,695:US$ at the end of 1997 to *won* 1,203:US$ at the end of June 2002 and is now backed by foreign currency reserves of $112 billion. M&A activity, practically non-existent prior to 1997, has exploded as domestic companies refocus their attention on core activities. In 1999, the peak year, South Korean M&A transactions totalled $21.3 billion, two-and-a-half times more than the previous eight years combined. Although activity has slowed since 1999, M&As continue at a significantly higher level than before the crisis (see Exhibit 15).

Encouraged by the increased number of companies allocating greater portions of their cash flow to pay down debt, South Korean banks have shown an increased willingness to provide leveraged finance to fund buyout investments. South Korea has thus emerged as one of the leading buyout markets in Asia, with the financial, IT, telecommunications, electronics, consumer products, and manufacturing sectors attracting the most interest from buyout investors.

[14] Kim Dae-Jung, a long-standing critic of the status quo, was elected President of South Korea following elections held on 18 December 1997.

According to *Asia Private Equity Review*, at least 29 buyout transactions took place in South Korea during the last two-and-a-half years prior to June 2002, totalling $3.3 billion of total transaction values. (Representative transactions are described in Appendix A to illustrate the nature of buyout investing in the country.)

Despite encouraging signs over the last few years, buyout investing in South Korea remains a challenge, particularly for foreign investors, for whom the playing field is rarely even. For example, in August of 2002 a local strategic investor, Hana Bank, succeeded in its bid for Seoulbank, a nationalised Korean lender, despite the fact that its offering price was lower than that of the foreign investor. This auction represented the Korean government's third attempt since 1998 at privatising Seoulbank. The private equity investor, looking for a 100% ownership position, submitted an all-cash offer of just over $1 billion that included an approximately $300 million profit-sharing arrangement with the South Korean government. Hana Bank presented an all-stock deal valued at $930 million, with the fatuous provision that the government would be compensated for any future declines in Hana Bank's share price. Given the political firestorm that followed the earlier MBO of Korea First Bank, it was widely acknowledged that regulators hoped Seoulbank might attract a domestic buyer. On the other side of the table, this transaction disappointed outsiders, who saw it as a litmus test of South Korea's willingness to sell additional state-owned assets to foreigners (the government continues to hold stakes in about ten financial institutions that it has indicated will eventually be sold). However, such setbacks should not obscure the fact that South Korea has proved a reasonably fertile ground for buyout investing, including some successful realisations of post-crisis buyout transactions, as documented in Appendix A.

Most private equity firms in Asia already operate in South Korea, competing not only with each other but also with local strategic investors. In addition, the rebound of the South Korean economy and stock market in recent years has resulted in corporate sellers during the financial crisis returning as potential buyers, and the resulting increase in competition has raised concerns that this market might be fully valued. Valuations for buyout transactions have certainly continued to increase with the majority of larger deals being sold at full prices via competitive auctions. A direct result of the higher competition is the increased number of syndicated deals being struck between financial buyers who would rather team up than compete with each other. Concerned that the market may no longer offer attractive opportunities, some regional investors have started turning their attention to other promising markets in Asia where they hope to uncover viable deals at more appealing valuations.

Japan

Japan should be the most active buyout market on the planet. However, the world's second largest economy is plagued with overcapacity, structural inefficiency, and literally thousands of "zombie" companies on futile life-support proffered by insolvent banks reluctant to classify ever larger chunks of their loan portfolios as non-performing. This is exactly the sort of economic mess buyouts can help clean up; nevertheless, Japan has not yet provided investors with much in the way of deal flow. Why not?

Three major impediments hinder outside private equity investors seeking buyout transactions in Japan. First, because outside investors typically target internal rates of return of 30% or so, they are priced out of the auction market by local investors happy to target 10% returns. Consequently, exclusive, privately negotiated transactions hold much more promise for foreign investors. Second, most Japanese businesses are run for the benefit of stakeholders rather than shareholders, reflecting a socioeconomic culture that is more like a form of corporate socialism than American capitalism. To the extent the Japanese understand private equity investing at all, they may perceive it as antagonistic to their culture. Third, in keeping with this perception, foreign private equity investors are often seen (rightly or not) as vulture investors eager to exploit Japan's current economic misfortunes.

A couple of high-profile successful buyout stories are needed to change this mindset. The 1999 Nissan/Renault alliance, in which Renault injected $4.6 billion in addition to managerial resources, has produced solid results, including Nissan's return to profitability in 2001 following seven successive losing years.[15] However, Renault was a strategic investor and what is needed to ignite buyout investing across Japan are one or two similarly high-profile success stories achieved by *financial buyers*.

The opposition of existing management teams represents a particularly difficult hurdle for private equity investors. Not only are entrenched managers concerned about their job security, they also fear that acceding to a buyout may be viewed as an open acknowledgement of failure. To combat this problem, some private equity investors have chosen not to pursue full control, electing instead to obtain significant minority positions that ensure the retention of the existing management team. On the one hand, lack of control can prove problematic if minority shareholders' interests are not protected; on the other hand, this approach may give one private equity group an advantage over other potential bidders, and in some instances the local knowledge of incumbent managers may be critical to the success of the business.

[15] According to the 2001 Nissan Annual Report, as a result of the Alliance agreement of March 1999, between Nissan and Renault, each company builds cars in the other's plants, producing cars based on joint platforms, sharing back-office operations and a centralised purchasing organisation (RNPO) to leverage the purchasing strength of both manufacturers. The RNPO began by handling 30% of the two companies' annual global purchasing turnover, a figure expected to grow to the 70% level. The Alliance has strengthened, with Renault increasing its equity stake in Nissan to 44.4% and Nissan increasing its equity stake in Renault to 15%. The Alliance has also created Renault-Nissan BV, a jointly and equally owned company with sole responsibility for decisions on mid- to long-term planning, on common products, and financial planning.

Such deal flow as there is in Japan generally comes from corporate disposals of non-core divisions, companies with distressed balance sheets, orphaned subsidiaries of retreating foreign multinationals, and businesses facing management issues. Private equity capital can play an important role in freeing Japanese companies from their heavy burdens of excess debt, while simultaneously helping management teams focus on earnings growth and productivity enhancement. For a more detailed analysis of the distressed sector of the Japanese market, please refer to our *Japanese Distressed Investing* (2002) report, which is available on our website.

Japan recently enacted various policies to address the issues of damaged balance sheets and low profitability within Japanese businesses, including new accounting rules and improved disclosure requirements. Both developments are seen as major steps forward in terms of corporate transparency. Political reforms and corporate rethinking have also resulted in the opening up of previously protected industries, including financial services, construction, retail, and distribution. In addition, the Japanese Ministry of Economic Trade and Industry recently issued new regulations hospitable to MBO transactions.[16] Financing remains cheap and readily available in Japan—with debt financing at 1% or 2%, buyout investors in businesses with positive cash flow can quickly pay down debt and realise value in a relatively short period of time.

Japan's M&A activity, which was largely dormant during the country's prolonged economic downturn of the 1990s, registered two successive record years in 2000 and 2001. Combined disclosed transaction values for completed M&As totalled $263.2 billion in those two years, indicating that Japanese companies are beginning to restructure, spin off assets, and seek outside equity capital (see Exhibit 10). Coupled with the country's recent period of increased regulatory and industry reforms, there appears to be a greater willingness on the part of the Japanese institutions to accept foreign investors than was previously the case.

According to *Asia Private Equity Review*, only two buyout transactions, worth $38 million, were completed in Japan in 1998. By 2000 this had jumped to 15 transactions totalling $1.8 billion, and in 2001, to 21 transactions valued at $1.7 billion. To date, however, these transactions have been too small to attract the attention of larger foreign buyout investors and have been largely funded by smaller local buyout groups. However, the increase in deals suggests that Japan is now showing encouraging signs of

[16] Effective April 2001, the Japanese Commercial Code was amended to institute a corporate break-up system under which a company can assign all or part of a transfer of businesses to a newly founded or existing company.

catching up with Korea, and private equity investors perceive the small number of completed transactions as merely the tip of a very large iceberg that might even include Japanese *keiretsu*[17] in coming years.

Australia

Although dominated by local private equity groups that raise relatively small funds with locally based investment teams and strong local networks, the Australian buyout market has a longer and more robust history than is found elsewhere in the Asia Pacific region. However, the dominance of local private equity managers presents certain entry barriers to foreign private equity groups aiming to compete for buyout deals, and as a consequence, regional firms have only participated selectively in buyout transactions Down Under, although their interest in the Australian market appears to be growing.

The main impediment faced by foreign private equity investors is a discriminatory tax regime that imposes a 30% capital gains levy from which domestic investors are exempt.[18] However, the Australian government's recent decision to review these punitive tax laws should at least lower, if not remove, this hurdle,[19] resulting in a substantial increase in foreign investment that could prove the catalyst for a consolidation of the Australian private equity industry, with smaller local funds finding it more difficult to compete with larger competitors.

Buyout deal flow remains strong in Australasia (which survived the 1997 financial crisis relatively unscathed) and has tended to focus on the acquisition of subsidiaries from conglomerates seeking to focus on their core business. M&A activity has been on the increase since 1998, peaking in 2000 at $48.2 billion dollars of disclosed transaction values (see Exhibit 12).

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[17] A *keiretsu* is a network of Japanese businesses owning stakes in one another as a means of mutual security. Typically companies within a *keiretsu* get preferential financing from a major bank or insurance firm and often do their foreign trade with the main trading house of the *keiretsu*. Companies faced with problems have their credit guaranteed by the group and often receive new management from more successful group members. Companies are not, however, told what to do by a central board since each firm or bank owns only small pieces of other firms in the group resulting in a complex web of ties and mutual obligations. Important Japanese *keiretsu* include Mitsubishi, Mitsui, and Sumitomo.

[18] *Australian Venture Capital Association Limited - 2001 Yearbook.*

[19] Industry awaits the Australian government's ruling on structuring Australian private equity funds as limited partnerships making them more tax efficient for foreign investors who would no longer be subject to capital gains tax of 30%. It is currently anticipated that the tax changes will only benefit tax-exempt investors and funds-of-funds from the United States, United Kingdom, France, Germany, and Japan. The list of eligible countries will be expanded in due course. Foreign investors (from any country, whether taxable or exempt) that hold less than 10% of the limited partnership will also not be subject to capital gains. For further information, refer to the *Australian Venture Capital Association Limited - 2001 Yearbook*.

Competition remains one of the biggest issues for Australian buyouts. The increased appetite of regional private equity funds means that large buyout transactions now tend to be auction driven, with the result that entry multiples are often similar to those found in the more developed and competitive buyout markets of the United States and Western Europe. In addition, there are concerns that this relatively small market may be in danger of being swamped—no fewer than eight of the country's 11 specialist buyout funds have been raised in the past five years. Prospective investors might do worse than to watch the behaviour of the Australian Superannuation (i.e., public sector retirement) funds, which historically have provided about one-third of the $3.5 billion total capital under management in the Australian private equity industry and presumably have a well-developed knowledge of the local market.

Other Buyout Markets in Asia

For reasons including, but not limited to, political instability, regulatory concerns, limited deal flow, currency issues, and the challenge of securing control positions, very few buyout investments have occurred outside of South Korea, Japan, and Australia. Buyout investing in other regions, such as Southeast Asia, Taiwan, India, and mainland China is discussed in more detail below.

Southeast Asia

Although Southeast Asian M&A activity grew steadily during the 1990s, peaking at $28.6 billion of disclosed values in 2001 (see Exhibit 13), the region as a whole has disappointed many private equity managers seeking to secure buyout transactions. Malaysia, Thailand, and Indonesia have few companies sufficiently well-capitalised to attract buyout investors. In addition, many of the larger companies are family-owned businesses with little or no interest in relinquishing control to private equity investors. The region's volatile political environment, continued currency depreciation, and heavy dependency on exports pose additional risks to private equity investors. Such investments as have been made in Southeast Asia have mostly been minority expansion-capital investments, and have included only a handful of smaller buyouts.

Singapore is something of an exception to these generalisations. The city-state's political stability and strong professional management makes it more attractive to buyout investors and there have been several successful transactions. However, the size and efficiency of Singapore's market has meant that most deals are sold at full price through public auctions. The anticipated potential deal flow of non-core disposals from Singapore's numerous large Government Linked Companies (GLCs)[20] may appear to be gaining more credibility. Temasek Holdings, the domestic investment arm of the Singapore government, recently announced it was applying pressure to management and boards of the GLCs to improve their performance either through consolidation or offshore expansion. Temasek has also indicated a greater willingness to place more non-core divisions of GLCs on the auction block as witnessed by the pending MBO of Natsteel Ltd.[21]

Taiwan

High foreign reserve levels helped shield Taiwan from the full brunt of the 1997 Asian financial crisis, allowing the country to weather the storm comparatively better than many of its neighbours, most notably South Korea (see Exhibit 7). Taiwan has maintained a well-developed infrastructure with world-class companies and strong management teams. However, more recently, due to improving regulatory regimes and significantly lower labour costs, much of Taiwan's manufacturing industry is migrating to mainland China. At the same time, the relatively modest impact of the financial crisis on the country means Taiwan has been slower to adopt necessary reform and restructuring measures, thereby limiting the potential buyout deal flow that has arisen in neighbouring countries like South Korea and Japan. Early signs indicate that this is now changing. As recently as 15 January 2002, the legislative Yuan approved the Enterprises Merger and Acquisition Law providing for the regulation of M&A schemes, including simplified procedures and tax incentives. The increase in M&A activity expected to result from the newly approved legislation could provide the necessary catalyst for buyout investing in a country that has historically been viewed more as a local venture capital market dominated by early-stage technology investments. In addition, Taiwan's accession to the World Trade Organisation (WTO)[22] should enhance its economic development. To date, however, Taiwan has only recorded one MBO transaction, the $55 million private equity acquisition of a 70% controlling stake in Tong Lung Metal Industry, Taiwan's largest and the world's third largest door lock manufacturer.

[20] GLCs are Singapore state-owned companies. A representative list of notable GLCs include Singapore Telecommunications (SingTel), Singapore Airlines, Development Bank of Singapore, Singapore Power, Chartered (semiconductor producer), Keppel and SembCorp (the main shipyards), PSA (the port operator), Neptune Orient Lines (shipping operator), and Keppel Land and CapitalLand (property developers). The GLCs have a combined market capitalisation of approximately S$140 billion accounting for 41% of the Singapore Straits Times Index.

[21] In August 2002, the Board of Natsteel Ltd accepted an MBO offer of S$350 million subject to shareholders' approval.

[22] Taiwan officially became a member of the WTO on 1 January 2002 after 11 years of negotiation.

India

Better known for early-stage software and outsourcing investments, India has not yet attracted the attention of buyout investors despite ranking among the largest economies in Asia (see Exhibit 4). Although productivity has increased at numerous large companies able to take advantage of improvements in the country's infrastructure, India's macroeconomic environment remains overshadowed by high real interest rates and continuing currency depreciation. Domestic competition remains high in all sectors and private equity investors must cope with bureaucratic impediments, a poor regulatory environment and limited exit opportunities. Although India's M&A activity is improving, it remains weak compared to that of other countries in the region (see Exhibits 9 and 14) and to date most private equity investments have taken the form of expansion capital infusions into growth companies operating in the infrastructure, manufacturing, telecommunications, and construction industries. India's huge and long-promised privatisation program (which continues to be postponed due to political indecision) could itself provide significant investment opportunities for pan-Asian regional buyout managers if it ever gains momentum.

Mainland China

Although sentiment has received a significant boost from Beijing's successful bid for the 2008 Olympic Games and the country's recent accession to the WTO,[23] it will be at least three to five years before viable buyout opportunities emerge in the People's Republic of China. While the local venture capital market continues to show encouraging signs of advancement (see our impending report, *Venture Capital Investing in China*), buyout investors still face significant challenges. In addition to political risks, corporate governance, and regulatory impediments (all of which are slowly improving), buyout investors simply have problems finding viable deal flow since all potential targets of any size are state-owned enterprises in which the government is unlikely to cede control and minority positions are untenable.

Asian Buyout Managers

It is too early to measure the track record of Asian buyout managers since only a couple of transactions have been realised; it will be at least two more years before meaningful conclusions can be drawn as to the relative performance of Asian buyout funds.

[23] China officially became a member of the WTO on 11 December 2001 after 15 years of negotiation.

Buyout Experience

Since buyout investing only began to emerge in Asia following the 1997 Asian financial crisis, it remains in its infancy, with many Asian private equity groups still investing their first generation of funds, lacking the experience necessary to avoid costly mistakes. Although more Asian private equity managers with generalist investment strategies are looking for buyout opportunities in Asia, not all have succeeded in finding deals.

Buyout Strategies

The immaturity of Asia's buyout market precludes the identification of distinct strategies. Because most investments to date have been minority expansion capital transactions, which are relatively passive, most buyout managers are still in the process of defining and developing value-adding strategies. Lacking operational and strategic planning experience, many Asian private equity professionals continue to view their role solely as providers of new capital, strong corporate governance, and financial oversight. It will be some time before more investment professionals possessing much-needed operational experience will be in a position to adopt the more successful buy-and-build strategies common in the United States and Europe.

Moreover, Asia should not be viewed as a single buyout market—over time, different strategies will prove more or less suitable for different countries, as different kinds of opportunities present themselves. Consequently, most regional investors are opportunistic generalists who pursue various combinations of expansion capital and buyout investing, with some groups even including early-stage technology in their mandates.

Large, Medium, Small

The Asian market is too underdeveloped to support meaningful generalisations. However, one can perhaps say that companies with enterprise values in excess of $100 million are large enough to appear on the radar screens of intermediaries and investment banks, and to attract the attention of the larger regional private equity investors. Such deals are often more competitive, tend to be shopped around, and are typically sold at auction. In contrast, medium and smaller deals, which are often sourced through proprietary channels, generally have enterprise values between $30 million and $100 million and tend to attract both regional and local buyout firms. Finally, local buyout funds are often best suited to smaller transactions in the $10 million to $30 million range.

Regional vs. Country Focused

During the next three years in particular, regional private equity managers appear more likely to succeed in Asia. Compared to local firms, they have the scale, experience, resources, and infrastructure necessary to exploit emerging opportunities in different countries as buyout activity expands across the region from its historical roots in South Korea and Australia. An exception may be Japan, whose potential is great enough that both local and regional firms should find plenty of opportunity if and when buyout investing catches fire. Exhibit 23 lists representative Asian-based buyout managers.

Partnership Terms

Terms for Asian private equity partnerships are generally the same as those in the United States. In particular, the larger regional private equity managers tend to adhere to standard partnership terms, including Cayman Islands structured limited partnerships, five-year investment periods, eight- to ten-year life of the partnerships, 2 % management fees, 8% preferred return rates, and claw-back agreements.

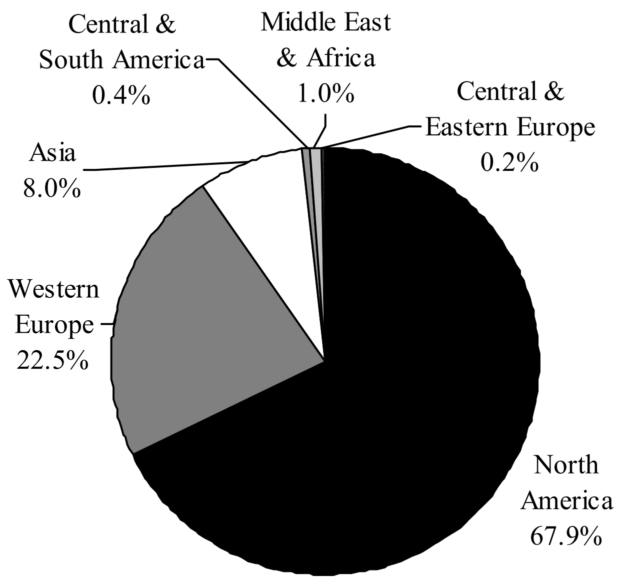
EXHIBITS

Exhibit 1

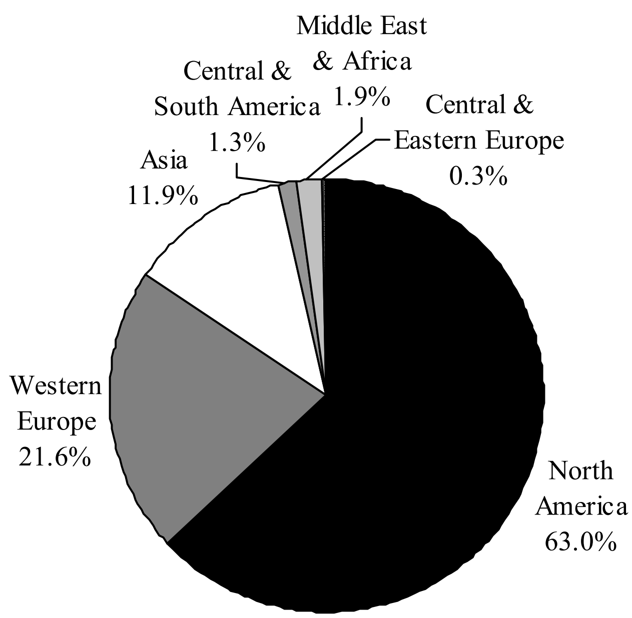
GLOBAL PRIVATE EQUITY COMMITMENTS

2001

Private Equity Raised by Region = $151.1 Billion



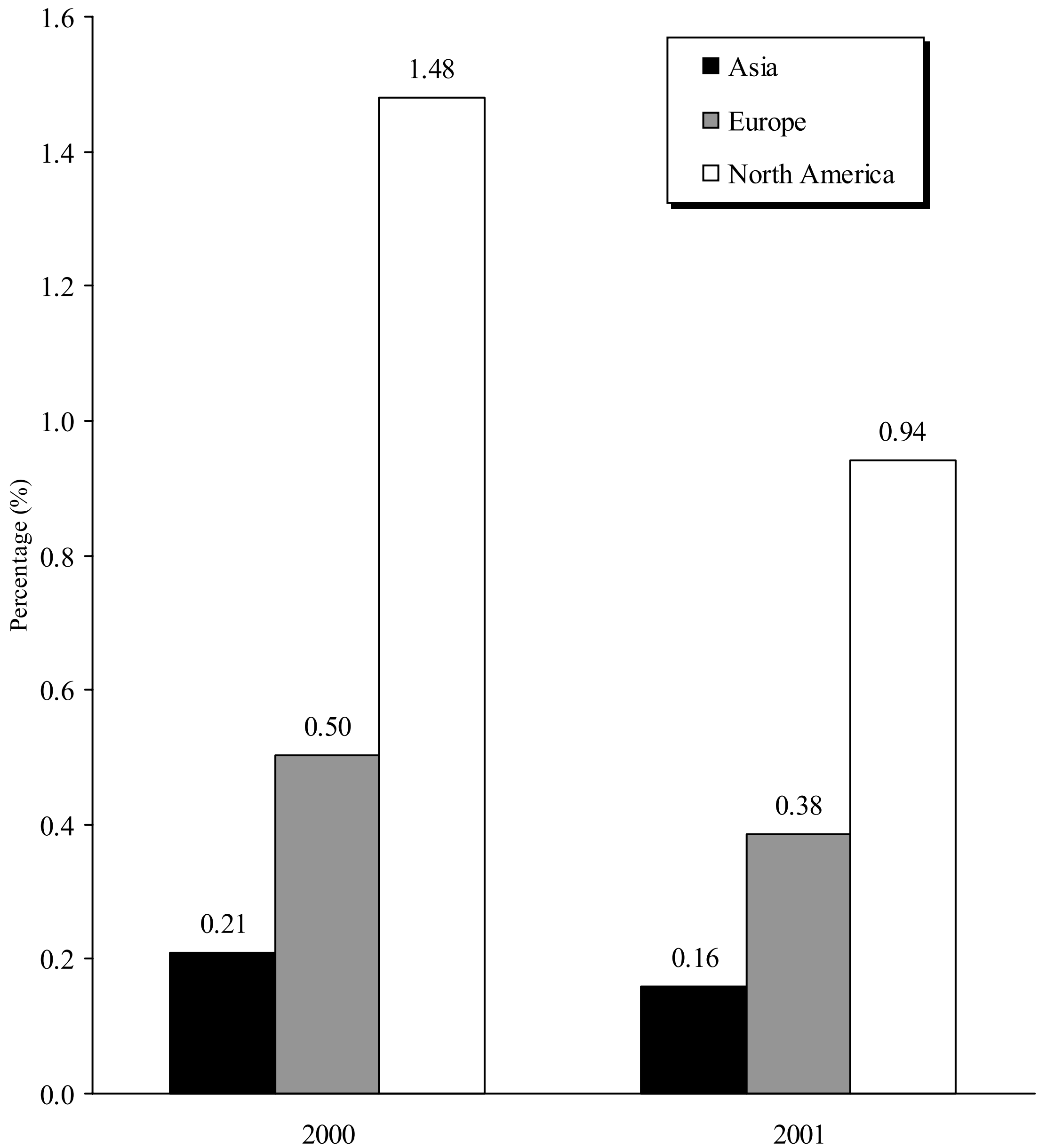
Private Equity Invested by Region = $99.7 Billion



Source: *PWC & 3i Global Private Equity 2002 Report.*

Exhibit 2

PRIVATE EQUITY AS A PERCENTAGE OF GDP BY REGION



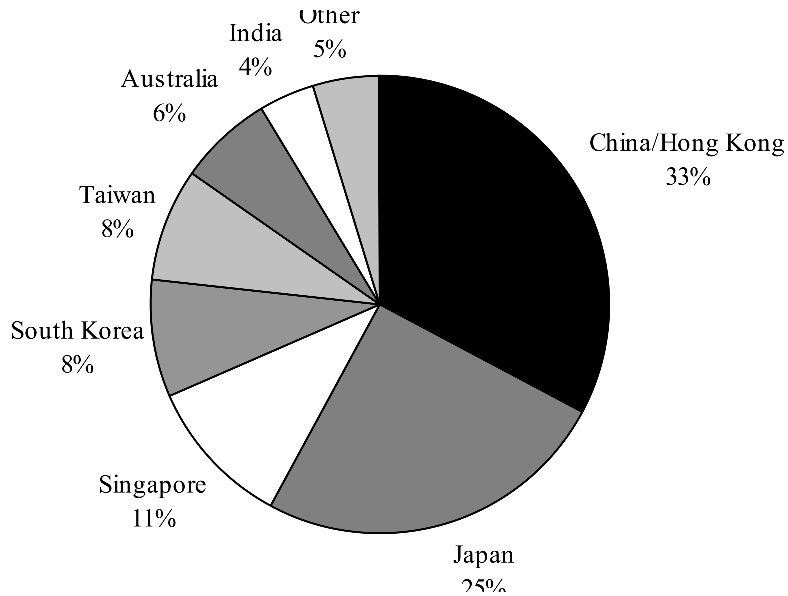
Sources: *PWC & 3i Global Private Equity 2002 Report* and The World Economic Outlook (WEO) Database April 2002.

Exhibit 3

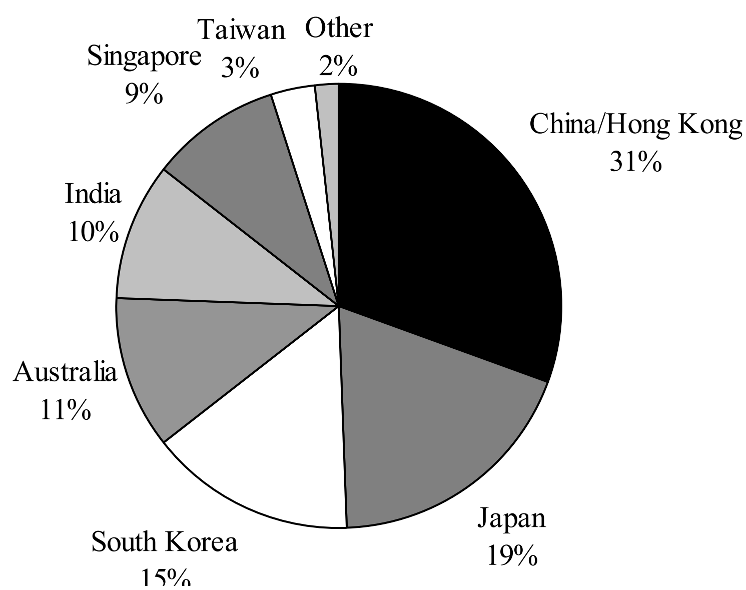
ASIAN PRIVATE EQUITY COMMITMENTS

2001

Private Equity Raised in Asia: $9.9 Billion



Private Equity Invested in Asia: $11.2 Billion

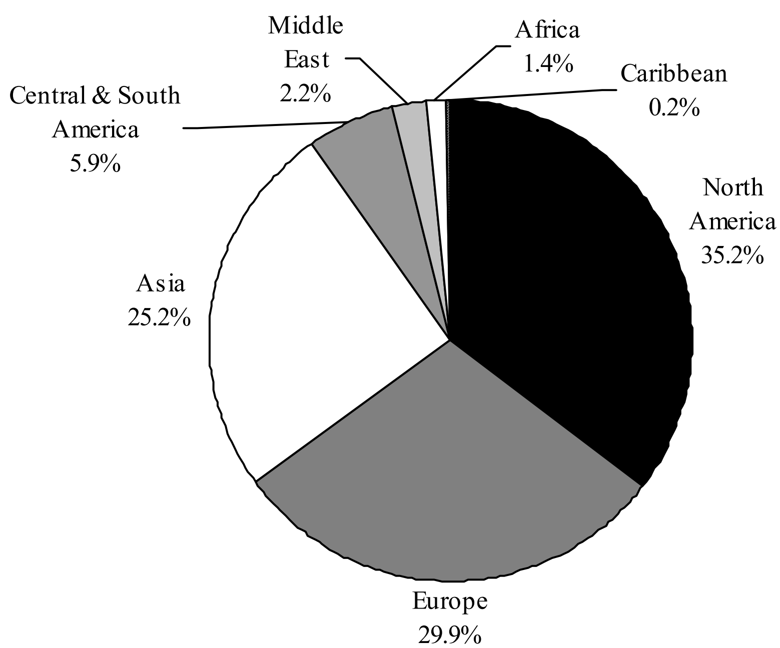


Source: *Asian Venture Capital Journal* .

Exhibit 4

WORLD GDP

2001



Region	US$ (Billions)	Percentage (%)
North America	10,908	35.2
Europe	9,255	29.9
Asia	**7,800**	**25.2**
Central & South America	1,840	5.9
Middle East	689	2.2
Africa	446	1.4
Caribbean	55	0.2
	30,993	100.0
Asia: Country Breakdwn		
Japan	4,149	13.4
China (PRC)	1,159	3.7
India	481	1.6
Korea	422	1.4
Australia	357	1.2
Taiwan	282	0.9
Hong Kong	162	0.5
Indonesia	146	0.5
Thailand	115	0.4
Singapore	88	0.3
Malaysia	88	0.3
Philippines	71	0.2
Other Asia	281	0.9

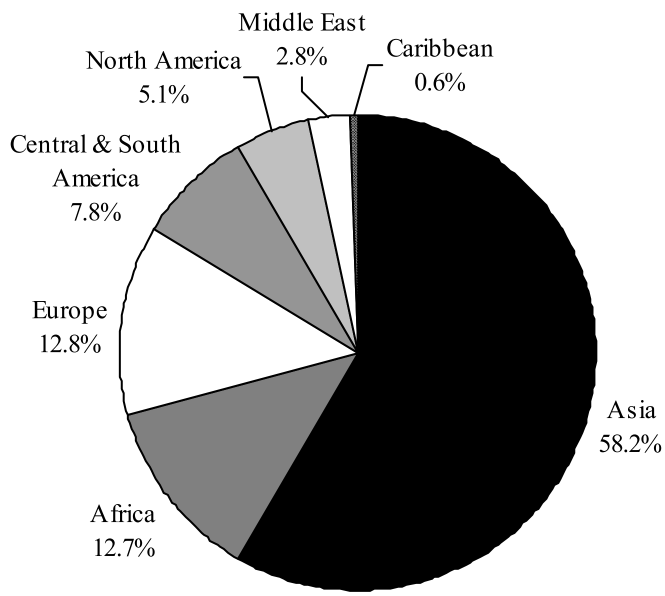
Source: The World Economic Outlook (WEO) Database April 2002.

Note: Asia includes Australasia.

Exhibit 5

DISTRIBUTION OF WORLD POPULATION

2001



Region/Country	Population (in Millions)
China/Hong Kong	**1,380**
India	**1,030**
Indonesia	228
Japan	**127**
Philippines	83
Vietnam	80
Thailand	62
South Korea	**48**
Taiwan	**22**
Malaysia	22
Australia	**19**
Singapore	**4**
New Zealand	4
U.S.	278
U.K.	60
Germany	83
France	60
World	6,234

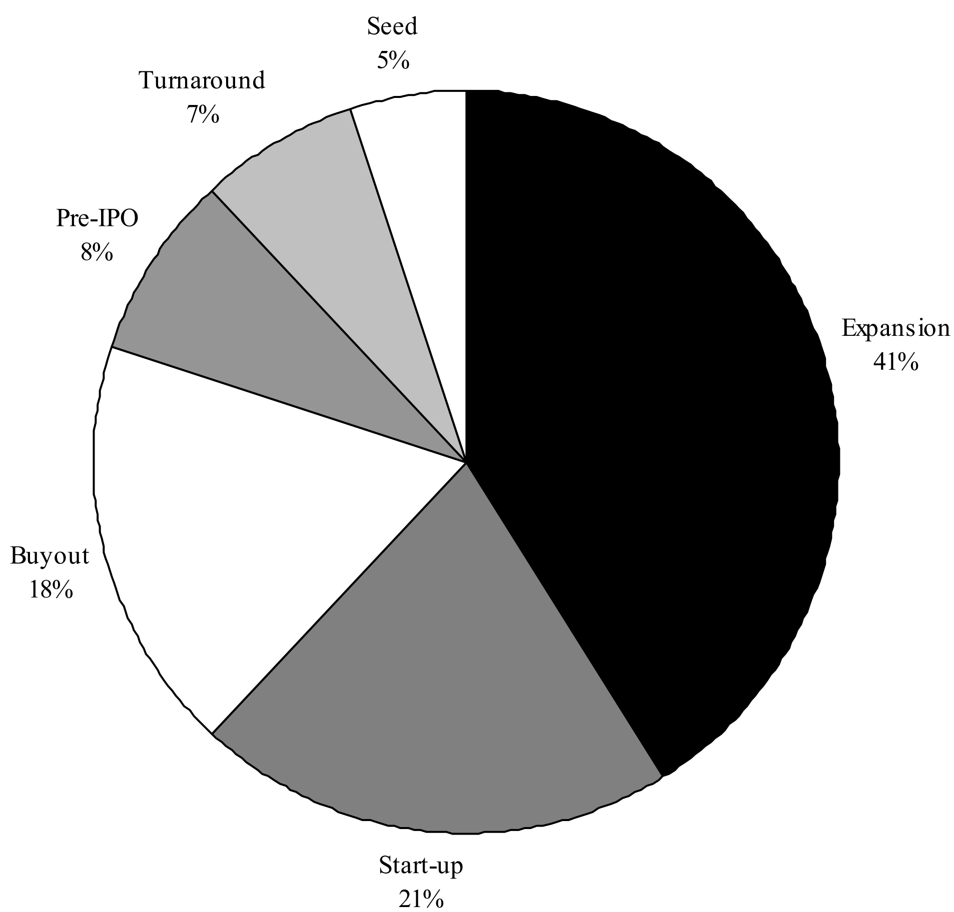
Source: The World Factbook 2001.

Notes: Asia includes Australasia. Countries noted in boldtype are among the seven main private equity markets in Asia.

Exhibit 6

ASIAN PRIVATE EQUITY BY FINANCING STAGE

2001



Source: *Asian Venture Capital Journal*.

Note: Based on $46.3 billion invested as at 31 December 2001.

Exhibit 7

STOCK MARKET AND EXCHANGE RATE FLUCTUATIONS

	Japan	South Korea	Hong Kong	Taiwan	Thailand	Malaysia	Indonesia	Philippines	Singapore	Australia	United States
Pre-Asian Financial Crisis											
(4 years: 1 Jan 1993 - 31 Dec 1996)											
Movement in Stock Market Price Index (%)	5.6	0.8	27.3	25.7	5.9	21.0	24.8	29.2	13.9	10.9	13.8
Local Currency to U.S. Dollar: Appreciation/(Depreciation)	13.7	**(7.5)**	-	**(8.3)**	**(1.1)**	3.8	**(14.7)**	**(11.9)**	15.2	7.1	-
Asian Financial Crisis											
(1.5 years: 1 Jan 1997 - 30 June 1998)											
Movement in Stock Market Price Index (%)	**-10.9**	**-34.2**	**-22.5**	8.5	**-58.2**	**-53.5**	**-13.8**	**-32.5**	**-39.4**	6.4	30.0
Local Currency to U.S. Dollar: Appreciation/(Depreciation)	**(28.8)**	**(62.4)**	-	**(24.7)**	**(65.2)**	**(64.0)**	**(526.6)**	**(58.6)**	**(20.9)**	**(19.6)**	-
Post-Asian Financial Crisis											
(4 years: 1 July 1998 - 30 June 2002)											
Movement in Stock Market Price Index (%)	**-7.5**	36.5	9.7	**-1.1**	17.2	21.0	14.4	**-3.1**	17.9	5.6	-1.4
Local Currency to U.S. Dollar: Appreciation/(Depreciation)	**(9.9)**	12.4	-	2.6	1.9	7.3	41.1	**(20.6)**	**(4.8)**	13.6	-
Entire Period											
(9.5 years: 1 Jan 1993 - 30 June 2002)											
Movement in Stock Market Price Index (%)	**-2.5**	10.3	12.0	11.7	0.5	9.2	14.3	5.8	7.1	8.0	9.9
Local Currency to U.S. Dollar: Appreciation/(Depreciation)	**(22.1)**	**(52.9)**	-	**(31.5)**	**(64.0)**	**(46.1)**	**(323.2)**	**(114.0)**	**(7.3)**	4.0	-

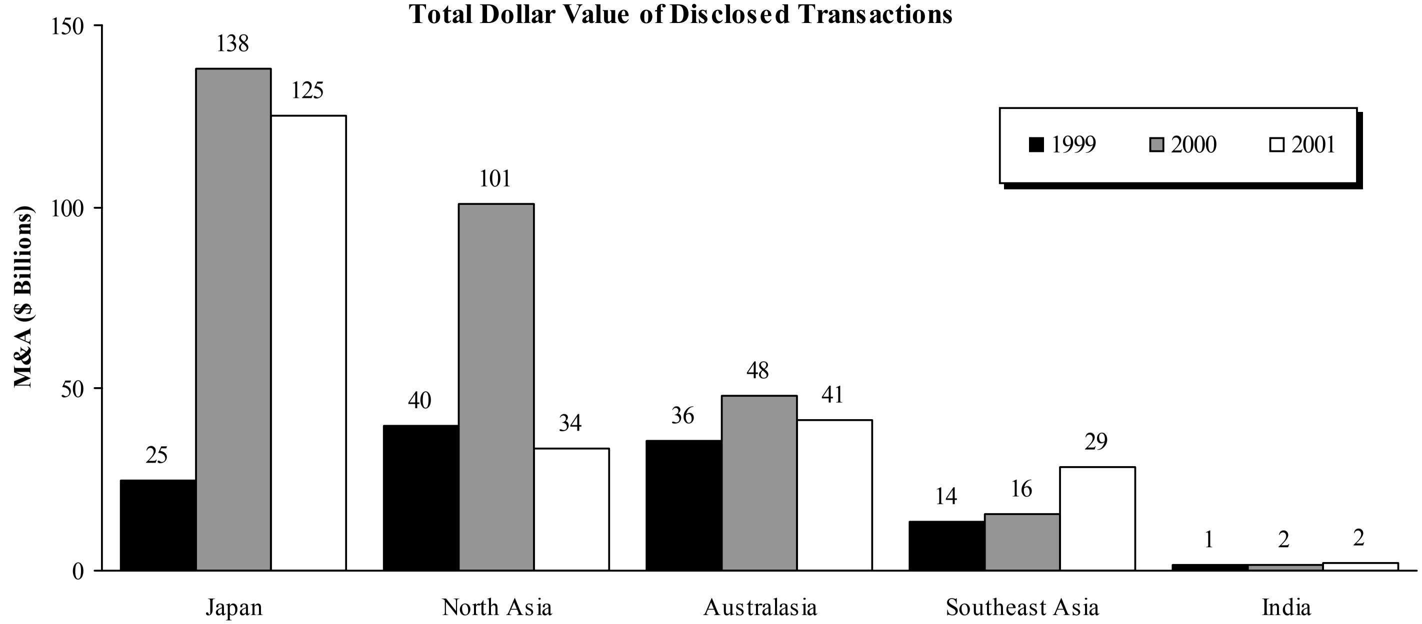
Source: Datastream International.

Note: Stock Exchanges are: U.S. (S&P 500), Australia (ASX All Ordinaries), Hong Kong (Hang Seng), Indonesia (Jakarta SE Composite), Taiwan (Taiwan SE Weighted), Singapore (Straits Times), Malaysia (Kuala Lumpur Composite), South Korea (Korea SE Composite), Philippines (Philippines SE Composite), Japan (Nikkei 225), and Thailand (Bangkok SET).

Exhibit 8

COMPLETED MERGERS AND ACQUISITIONS BY REGION

Total Dollar Value of Disclosed Transactions



	Japan			North Asia			Australasia			Southeast Asia			India		
Total Number of Transactions	527	594	615	384	427	394	974	992	921	575	464	530	101	157	150
Number of Disclosed Value Transactions	198	349	384	231	267	266	665	555	497	289	229	274	47	68	85
Average Disclosed Price ($ millions)	125.9	395.6	325.7	173.3	378.1	126.1	53.7	86.8	83.2	46.9	68.4	104.4	27.2	23.1	26.8

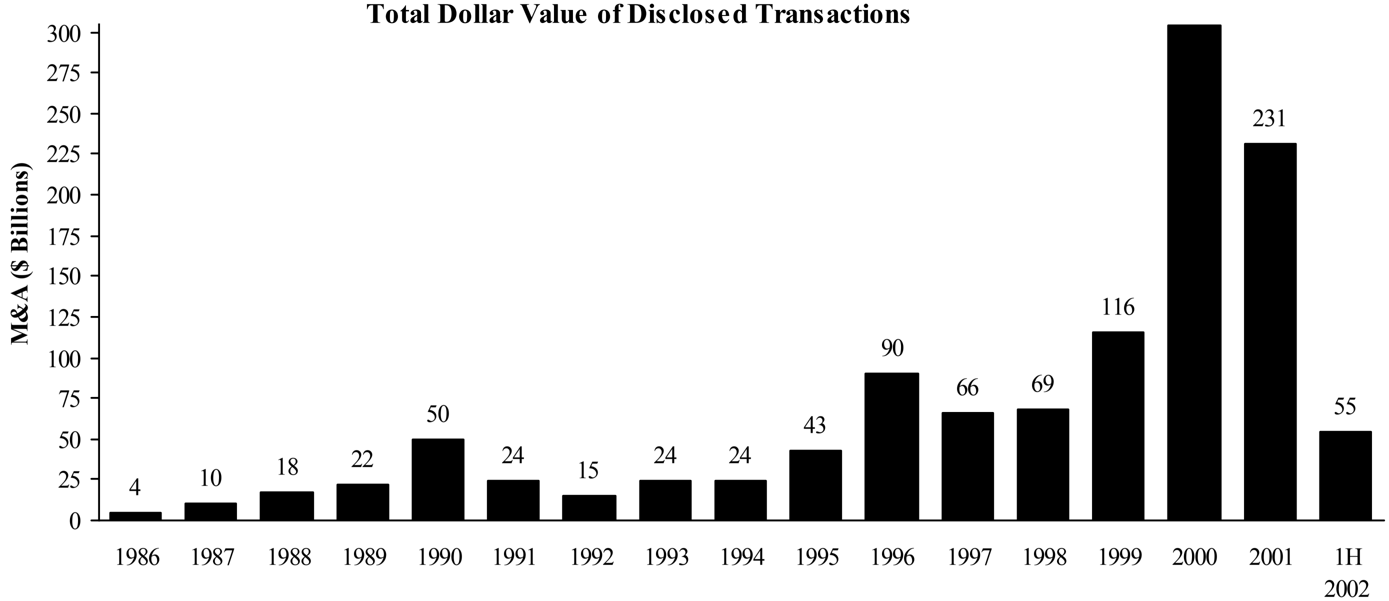
Source: Securities Data Company, Inc.

Note: North Asia (China, Hong Kong, Macau, North Korea, South Korea, Taiwan), Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam), Australasia (Australasia includes Australia, New Zealand, American Samoa, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, N. Mariana Islands, Nauru, New Caledonia, Niue, Norfolk Islands, Palau, Papua New Guinea, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis, Western Samoa), India, and Japan.

Exhibit 9

COMPLETED MERGERS AND ACQUISITIONS: ASIA PACIFIC

Total Dollar Value of Disclosed Transactions



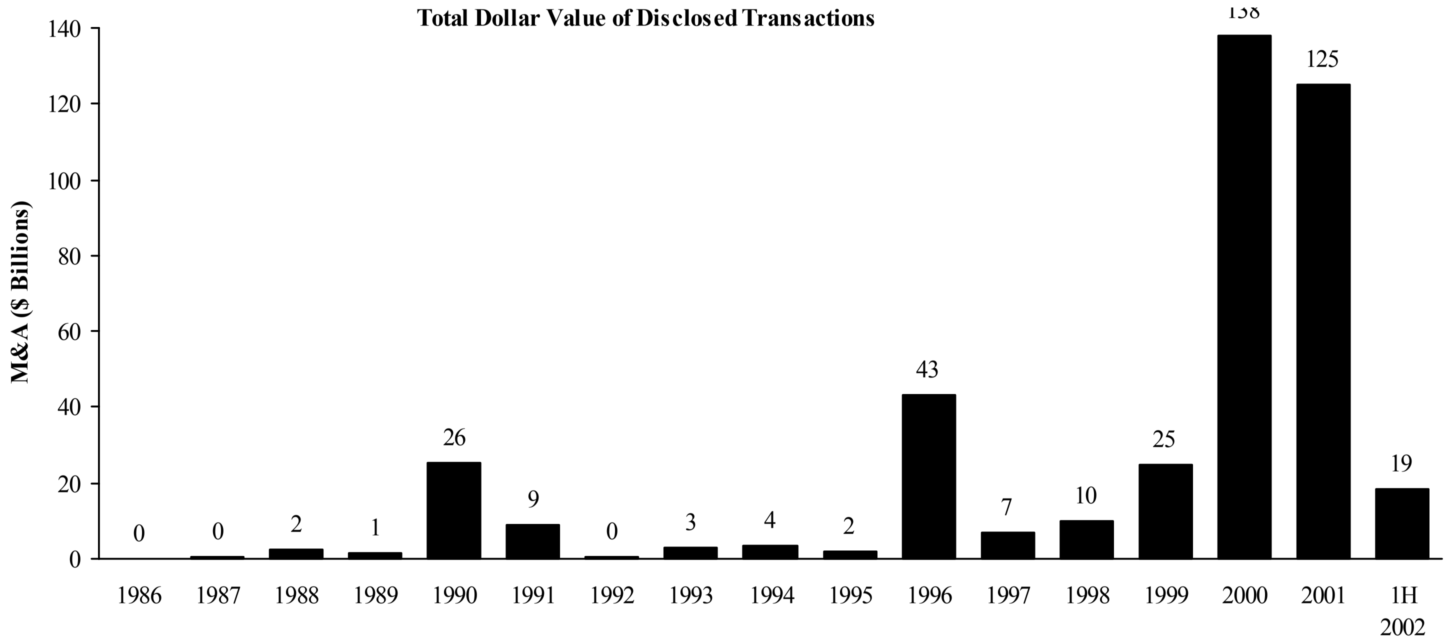
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	71	130	228	249	398	601	471	758	836	1,192	1,538	1,730	2,209	2,561	2,634	2,610	1,122
Number of Disclosed Value Transactions	21	47	128	123	207	336	300	484	520	620	742	976	1,168	1,420	1,468	1,506	624
Average Disclosed Price ($ millions)	195.2	210.6	138.3	178.9	243.0	72.6	50.3	49.8	46.5	69.4	120.9	67.6	58.7	81.3	207.4	153.3	88.0

Source: Securities Data Company, Inc.

Note: Asia Pacific includes North Asia (China, Hong Kong, Macau, North Korea, South Korea, Taiwan), Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam), Australasia (Australasia includes Australia, New Zealand, American Samoa, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, N. Mariana Islands, Nauru, New Caledonia, Niue, Norfolk Islands, Palau, Papua New Guinea, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis, Western Samoa), India, and Japan.

Exhibit 10

COMPLETED MERGERS AND ACQUISITIONS: JAPAN

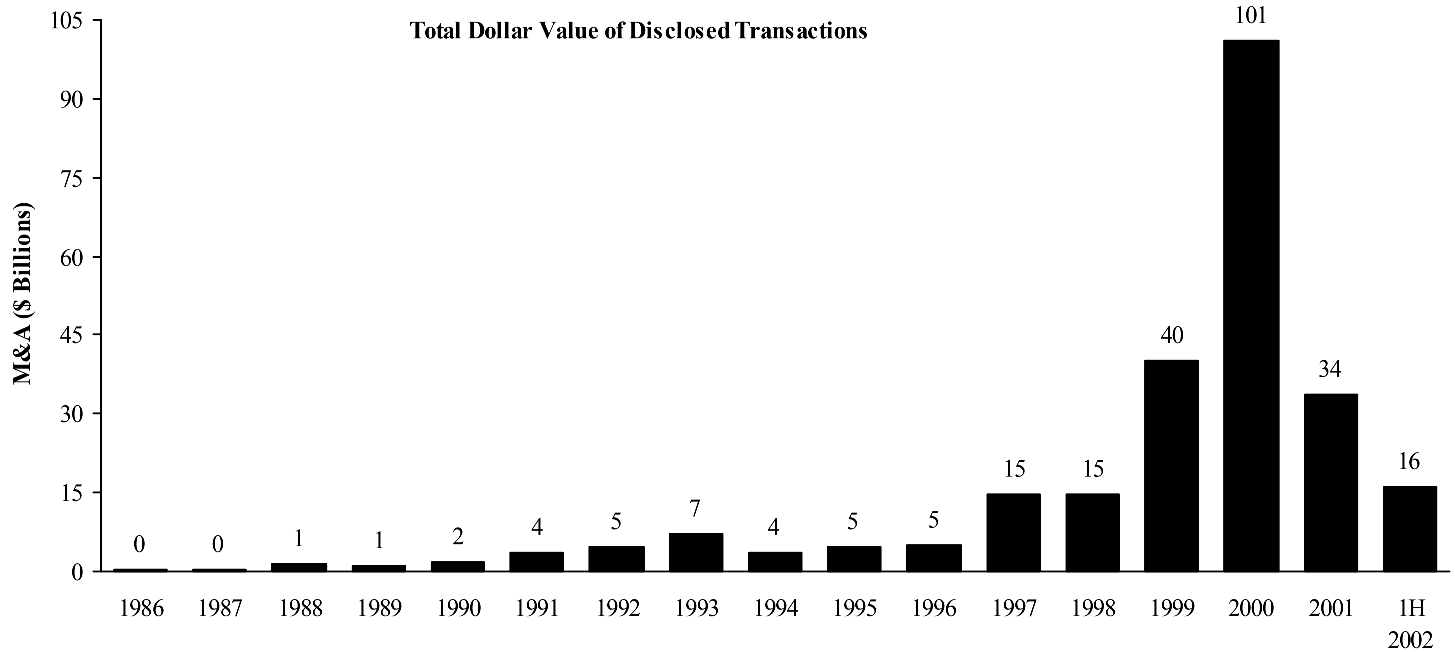


	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	8	10	23	31	41	45	39	36	44	48	173	143	195	527	594	615	273
Number of Disclosed Value Transactions	-	3	6	13	17	21	17	12	21	23	48	38	62	198	349	384	158
Average Disclosed Price ($ millions)	-	128.3	388.5	98.4	1,500.4	428.6	22.6	251.4	177.3	90.6	902.0	183.5	159.8	125.9	395.6	325.7	117.2

Source: Securities Data Company, Inc.

Exhibit 11

COMPLETED MERGERS AND ACQUISITIONS: NORTH ASIA



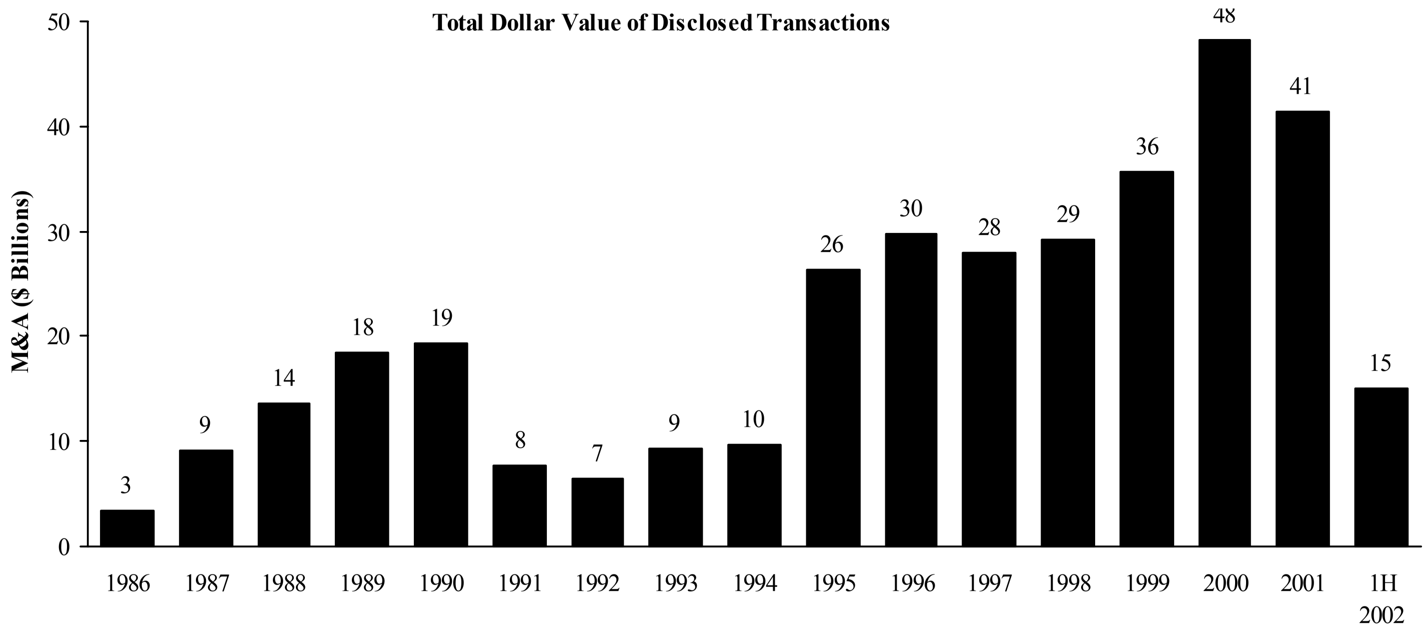
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	28	36	33	32	60	112	97	151	155	193	200	266	347	384	427	394	201
Number of Disclosed Value Transactions	7	6	9	13	22	76	73	104	111	105	114	166	196	231	267	266	125
Average Disclosed Price ($ millions)	56.6	38.8	160.4	89.5	74.9	47.6	61.8	67.9	33.3	45.2	44.3	87.9	75.7	173.3	378.1	126.1	128.8

Source: Securities Data Company, Inc.

Note: North Asia includes China, Hong Kong, Macau, North Korea, South Korea, and Taiwan.

Exhibit 12

COMPLETED MERGERS AND ACQUISITIONS: AUSTRALASIA



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	27	70	154	162	233	297	216	412	389	490	567	743	1,063	974	992	921	351
Number of Disclosed Value Transactions	14	38	103	83	134	143	137	257	232	264	289	468	631	665	555	497	178
Average Disclosed Price ($ millions)	237.1	239.5	131.6	222.7	143.8	54.0	47.5	36.1	41.8	100.1	103.2	59.6	46.3	53.7	86.8	83.2	84.9

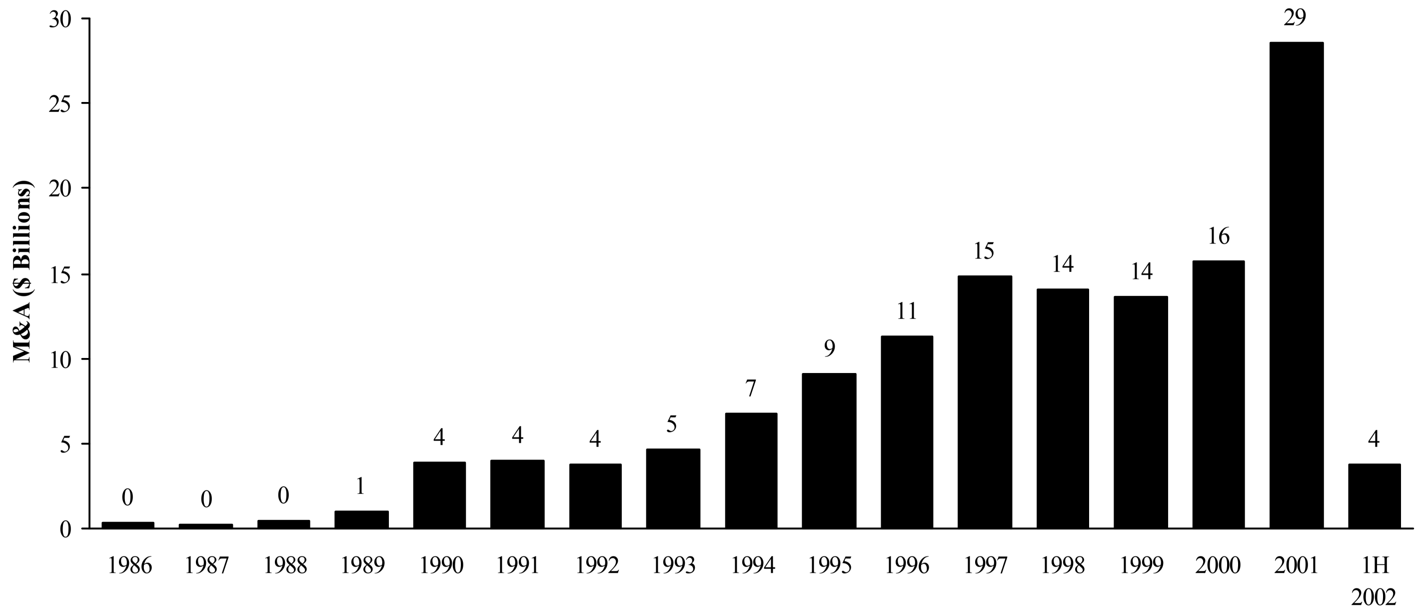
Source: Securities Data Company, Inc.

Note: Australasia includes Australia, New Zealand, American Somoa, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, N. Mariana Islands, Nauru, New Caledonia, Niue, Norfolk Islands, Palau, Papua New Guinea, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis, and Western Somoa.

Exhibit 13

COMPLETED MERGERS AND ACQUISITIONS: SOUTHEAST ASIA

Total Dollar Value of Disclosed Transactions



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	8	12	17	23	61	140	110	147	225	390	566	538	532	575	464	530	246
Number of Disclosed Value Transactions	5	5	10	14	34	94	69	103	142	205	281	285	238	289	229	274	135
Average Disclosed Price ($ millions)	76.8	37.6	43.0	71.8	113.8	42.7	53.9	45.1	47.4	44.3	40.2	52.0	59.2	46.9	68.4	104.4	27.9

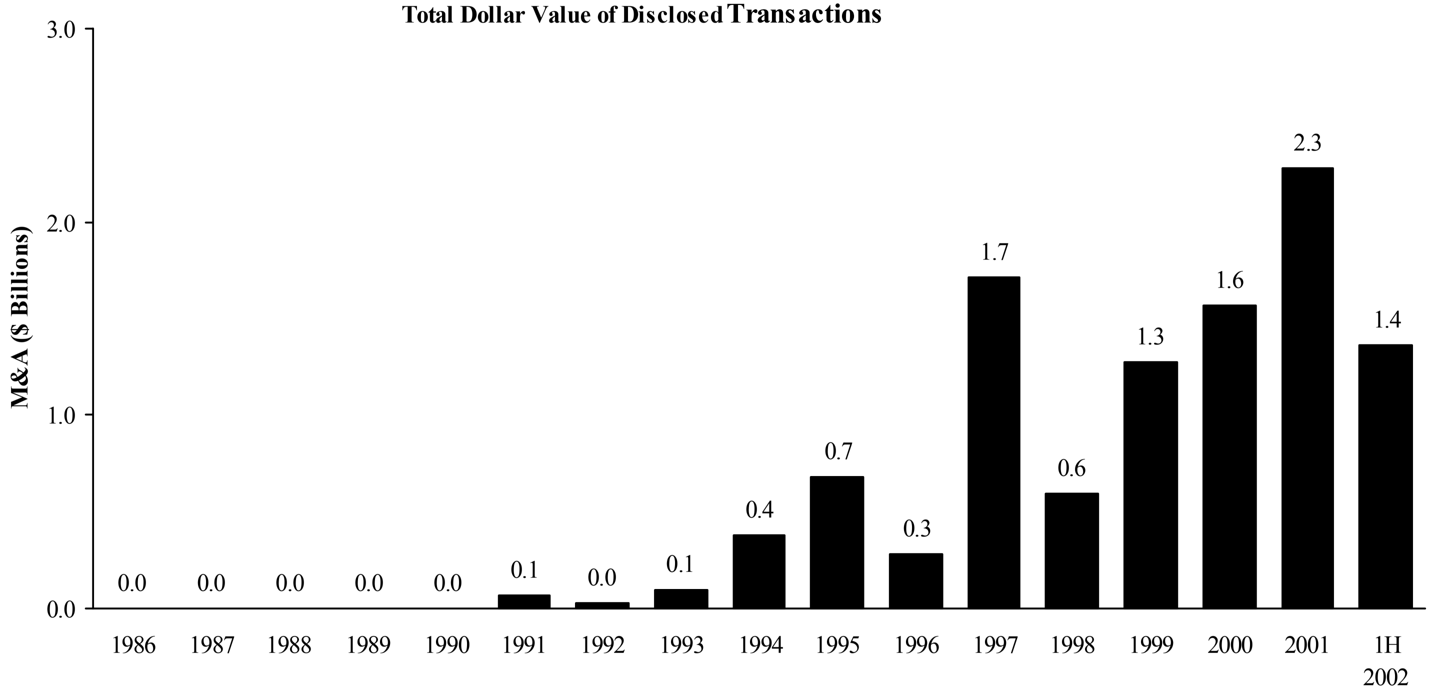
Source: Securities Data Company, Inc.

Note: Southeast Asia includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Exhibit 14

COMPLETED MERGERS AND ACQUISITIONS: INDIA

Total Dollar Value of Disclosed Transactions

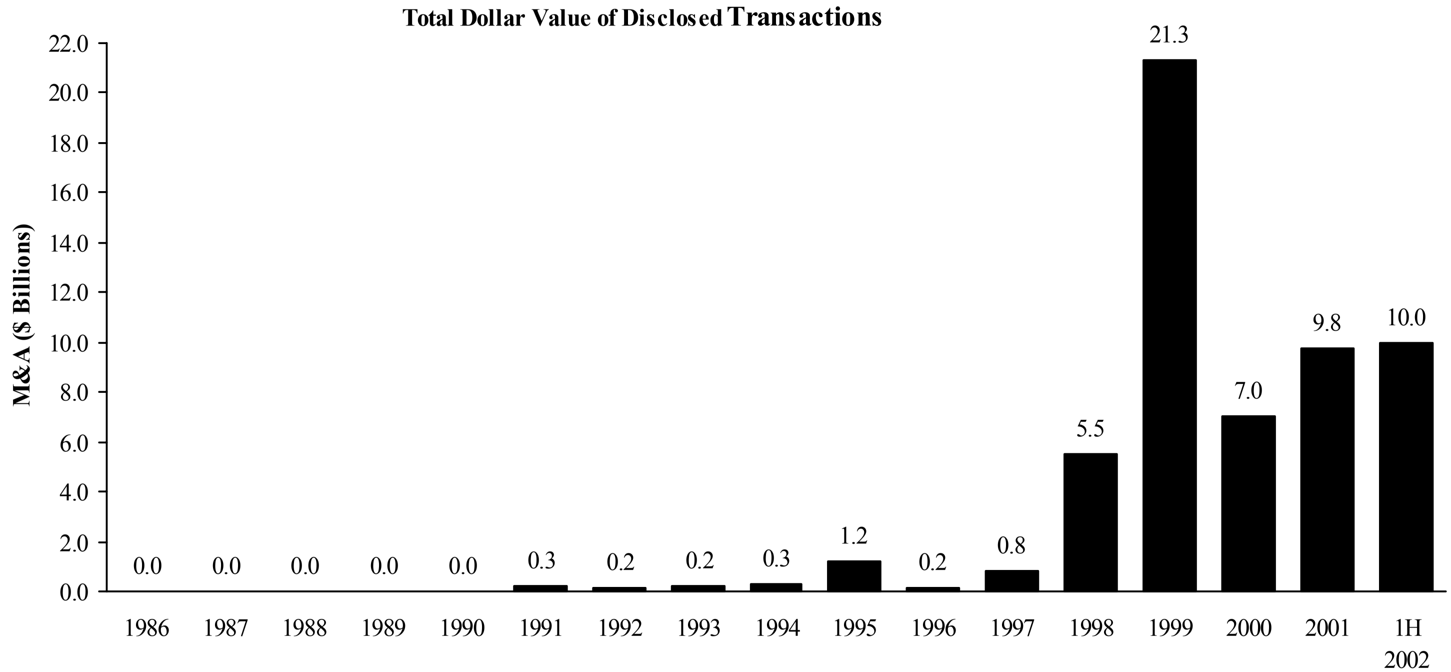


	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	-	2	1	1	3	7	9	12	23	71	32	40	72	101	157	150	51
Number of Disclosed Value Transactions	-	-	-	-	-	2	4	8	14	23	10	19	41	47	68	85	28
Average Disclosed Price ($ millions)	-	-	-	-	-	35.5	8.5	12.0	27.1	29.7	28.6	90.2	14.5	27.2	23.1	26.8	48.5

Source: Securities Data Company, Inc.

Exhibit 15

COMPLETED MERGERS AND ACQUISITIONS: SOUTH KOREA



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Total Number of Transactions	-	-	3	1	2	10	3	7	3	15	22	17	58	115	100	115	46
Number of Disclosed Value Transactions	-	-	-	-	-	6	3	3	2	10	9	8	34	61	53	83	30
Average Disclosed Price ($ millions)	-	-	-	-	-	42.2	58.0	81.7	143.0	122.7	17.7	103.6	163.0	349.7	132.9	117.6	332.1

Source: Securities Data Company, Inc.

Exhibit 16

RELATIVE LIQUIDITY OF ASIAN EQUITY MARKETS

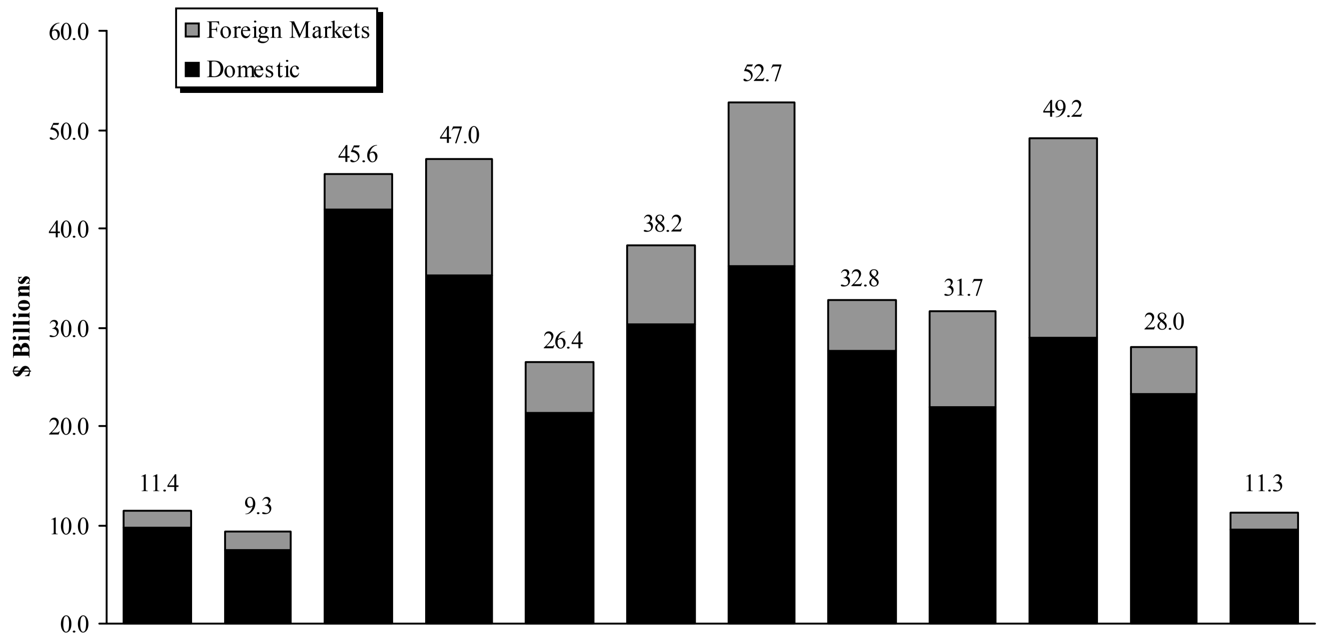
Country	Stock Exchange	Market Capitalisation (US$ bn)	Companies Listed	Average Market Capitalisation (US$ bn)	Transaction Value (US$ m - daily)	Transaction Value / Market Capitalisation (daily %)
Leading Stock Exchanges						
United States	New York Stock Exchange	$10,759	2,796	$3.8	$42,873	0.4%
	NASDAQ	$2,161	3,883	$0.6	$33,953	1.6%
United Kingdom	London Stock Exchange	$2,075	2,457	$0.8	$11,694	0.6%
France	Bourse de Paris	$1,839	1,545	$1.2	$7,158	0.4%
Germany	Deutsche Börse	$1,074	1,064	$1.0	$15,425	1.4%
Asian Stock Exchanges						
Japan	Tokyo Stock Exchange	$2,330	2,078	$1.1	$4,338	0.2%
China	Shanghai / Shenzhen Stock Exchanges	$577	1,178	$0.5	$1,796	0.3%
China - Hong Kong	Stock Exchange of Hong Kong	$486	787	$0.6	$941	0.2%
Australia	Australia Stock Exchange	$384	1,424	$0.3	$1,214	0.3%
Korea	Seoul Stock Exchange	$301	1,488	$0.2	$3,609	1.2%
Taiwan	Taipei Stock Exchange	$277	593	$0.5	$3,028	1.1%
Singapore	Singapore Exchange	$186	496	$0.4	$329	0.2%
Malaysia	Kuala Lumpur Stock Exchange	$133	844	$0.2	$183	0.1%
India	Bombay Stock Exchange	$130	5,786	$0.0	$289	0.2%
Thailand	Thailand Stock Exchange	$50	384	$0.1	$247	0.5%
Indonesia	Jakarta Stock Exchange	$36	324	$0.1	$66	0.2%
New Zealand	New Zealand Stock Exchange	$20	212	$0.1	$28	0.1%
Philippines	Manila Stock Exchange	$19	236	$0.1	$102	0.5%
Total - Asian Stock Exchanges		**$4,930**	**15,830**	**$0.3**		

Sources: Australia Stock Exchange, Bombay Stock Exchange, Bourse de Paris, China Securities Regulatory Commission, Deutsche Börse, Stock Exchange of Hong Kong, Jakarta Stock Exchange, Korea Stock Exchange, Kuala Lumpur Stock Exchange, London Stock Exchange, Manila Stock Exchange, New Zealand Stock Exchange, New York Stock Exchange, Singapore Exchange, Taipei Stock Exchange, Stock Exchange of Thailand, and Tokyo Stock Exchange.

Notes: All data are as of June 30, 2002, except Japan (as of August 2002), France and New Zealand (as of July 2002), Korea and Philippines (as of April 2002). Foreign exchange rates are as of September 3, 2002.

Exhibit 17

INITIAL PUBLIC OFFERINGS: ASIA PACIFIC



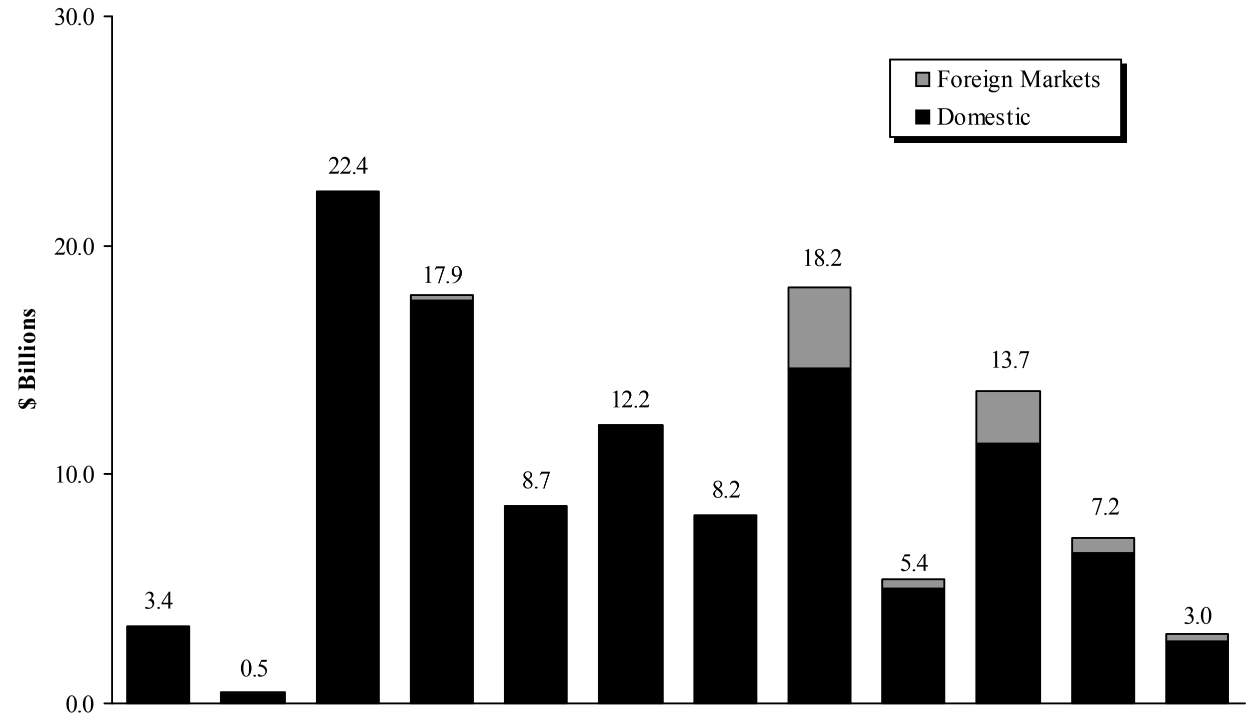
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Foreign Markets												
Amount ($ Billions)	1.6	1.8	3.6	11.7	5.1	7.9	16.6	5.2	9.8	20.2	4.7	1.7
Number of IPOs	16	35	50	118	84	107	128	33	84	171	73	26
Domestic IPOs												
Amount ($ Billions)	9.8	7.5	42.0	35.3	21.3	30.3	36.1	27.6	21.9	29.0	23.3	9.6
Number of IPOs	425	649	1,064	1,548	1,118	804	627	319	446	685	459	275

Source: Securities Data Company, Inc.

Notes: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten). Asia Pacific includes North Asia (China, Hong Kong, Macau, North Korea, South Korea, Taiwan), Southeast Asia (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam), Australasia (Australasia includes Australia, New Zealand, American Samoa, Cook Islands, Federated Staes of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, N. Mariana Islands, Nauru, New Caledonia, Niue, Norfolk Islands, Palau, Papua New Guinea, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis, Western Samoa), India, and Japan.

Exhibit 18

INITIAL PUBLIC OFFERINGS: JAPAN



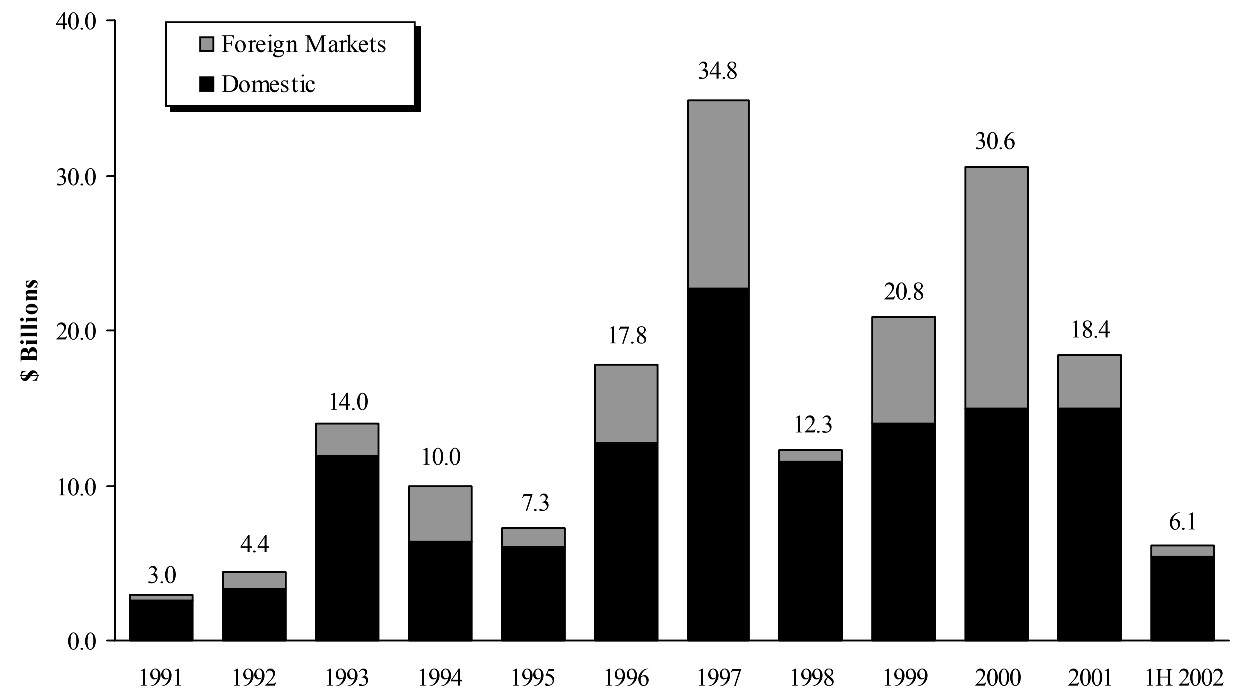
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
<u>Foreign Markets</u>												
Amount ($ Billions)	0.0	0.0	0.0	0.2	0.0	0.0	0.0	3.6	0.4	2.4	0.7	0.3
Number of IPOs	0	1	0	2	0	0	1	5	18	53	9	2
<u>Domestic IPOs</u>												
Amount ($ Billions)	3.4	0.4	22.4	17.6	8.7	12.2	8.2	14.6	5.0	11.3	6.6	2.7
Number of IPOs	56	20	92	147	187	157	142	85	106	202	171	69

Source: Securities Data Company, Inc.

Note: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten).

Exhibit 19

INITIAL PUBLIC OFFERINGS: NORTH ASIA



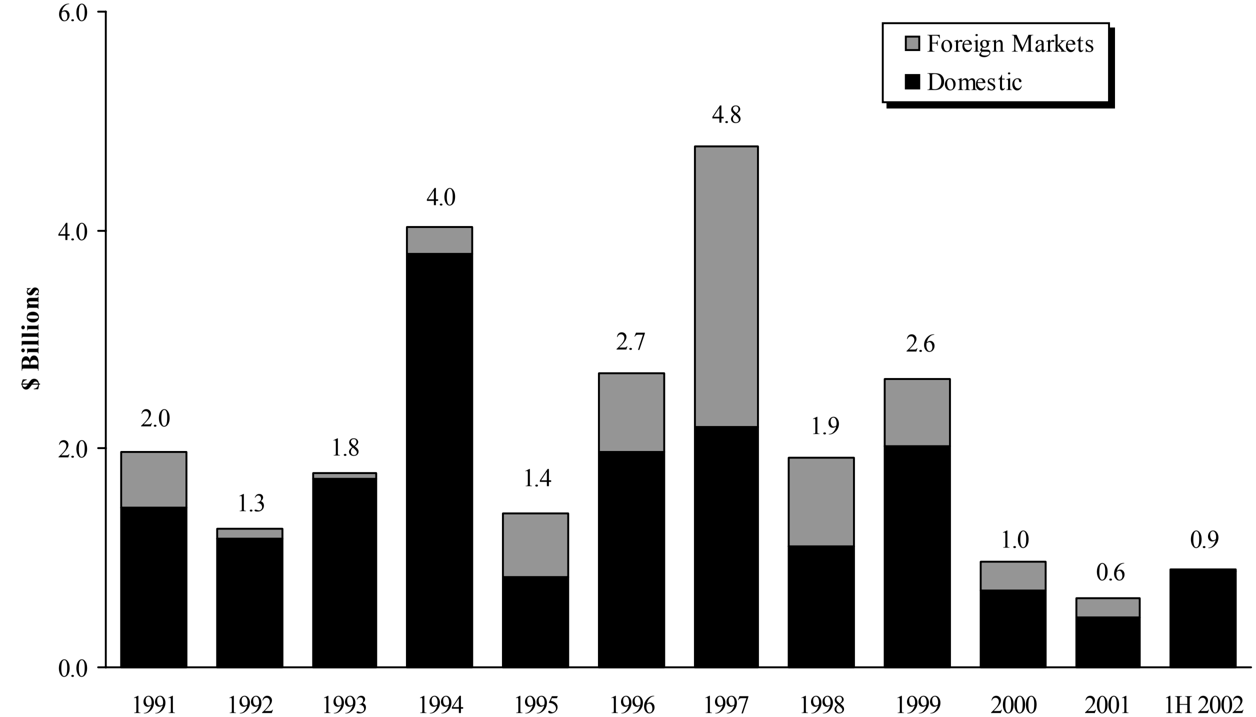
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
<u>Foreign Markets</u>												
Amount ($ Billions)	0.4	1.0	2.1	3.6	1.3	5.0	12.1	0.7	6.8	15.5	3.4	0.8
Number of IPOs	2	16	32	47	27	49	84	17	31	79	44	13
<u>Domestic IPOs</u>												
Amount ($ Billions)	2.6	3.3	11.9	6.3	6.0	12.7	22.7	11.6	14.0	15.0	15.0	5.4
Number of IPOs	108	172	211	138	120	278	282	156	160	220	170	114

Source: Securities Data Company, Inc.

Notes: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten). North Asia includes China, Hong Kong, Macau, North Korea, South Korea, and Taiwan.

Exhibit 20

INITIAL PUBLIC OFFERINGS: AUSTRALASIA



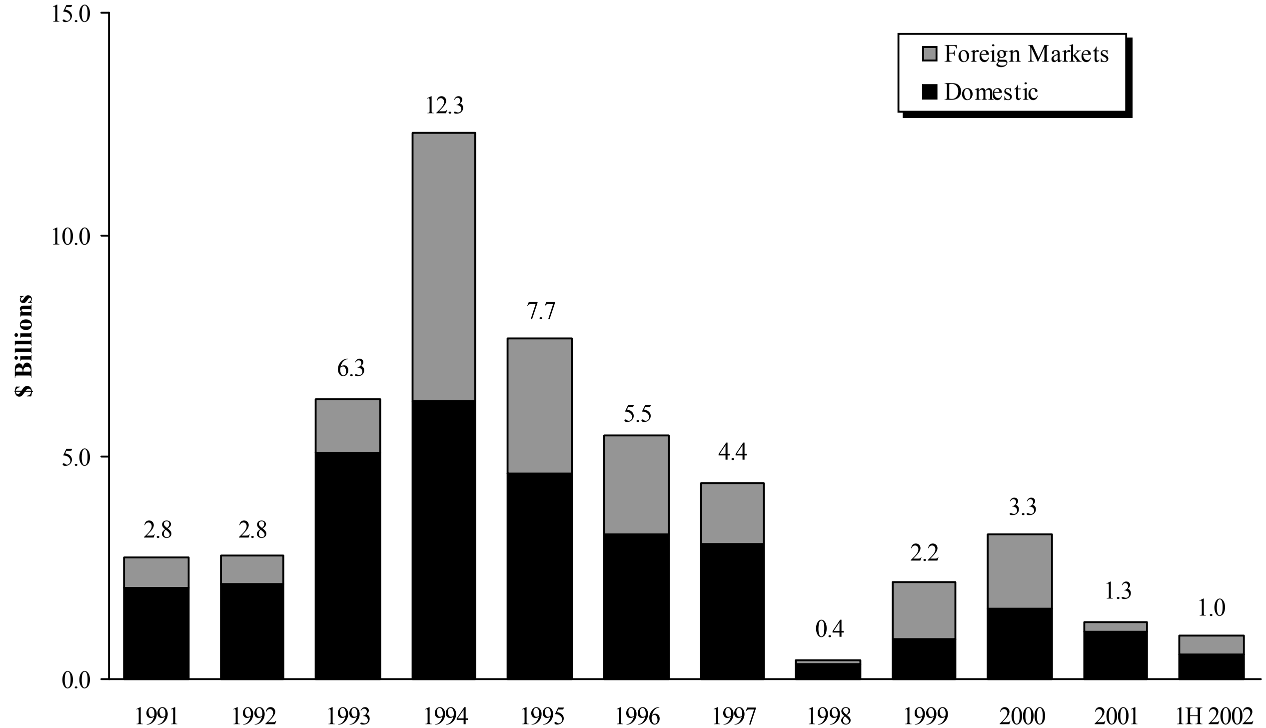
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Foreign Markets												
Amount ($ Billions)	0.5	0.1	0.1	0.3	0.6	0.7	2.6	0.8	0.6	0.3	0.2	0.0
Number of IPOs	2	1	1	3	6	12	17	8	17	17	17	5
Domestic IPOs												
Amount ($ Billions)	1.5	1.2	1.7	3.8	0.8	2.0	2.2	1.1	2.0	0.7	0.5	0.9
Number of IPOs	8	30	51	106	25	54	53	31	85	93	28	20

Source: Securities Data Company, Inc.

Notes: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten). Australasia includes Australia, New Zealand, American Samoa, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, N. Mariana Islands, Nauru, New Caledonia, Niue, Norfolk Islands, Palau, Papua New Guinea, Solomon Islands, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis, and Western Samoa.

Exhibit 21

INITIAL PUBLIC OFFERINGS: SOUTHEAST ASIA



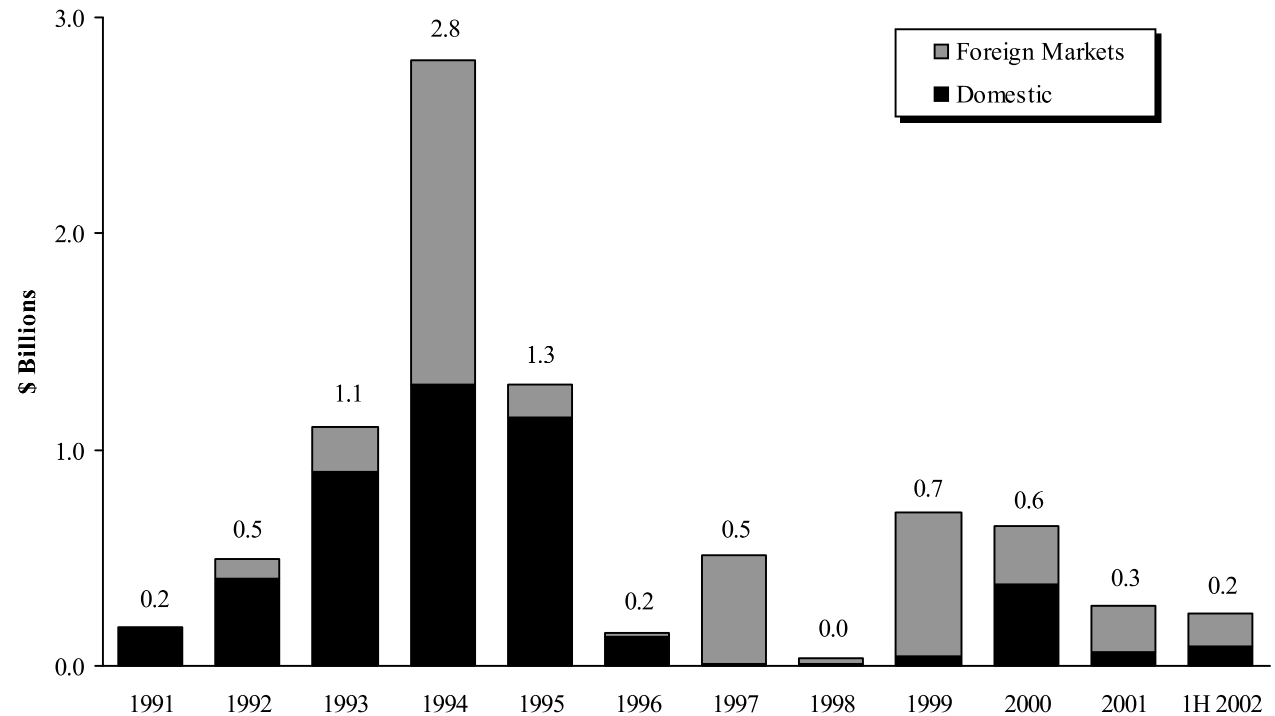
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
<u>Foreign Markets</u>												
Amount ($ Billions)	0.7	0.6	1.2	6.1	3.1	2.2	1.4	0.1	1.3	1.7	0.2	0.4
Number of IPOs	12	16	14	43	50	45	23	2	11	17	1	3
<u>Domestic IPOs</u>												
Amount ($ Billions)	2.1	2.2	5.1	6.3	4.6	3.3	3.0	0.3	0.9	1.6	1.1	0.5
Number of IPOs	136	103	148	220	127	155	145	41	90	145	83	69

Source: Securities Data Company, Inc.

Notes: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten). Southeast Asia includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Exhibit 22

INITIAL PUBLIC OFFERINGS: INDIA



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	1H 2002
Foreign Markets												
Amount ($ Billions)	0.0	0.1	0.2	1.5	0.1	0.0	0.5	0.0	0.7	0.3	0.2	0.2
Number of IPOs	0	1	3	23	1	1	3	1	7	5	2	3
Domestic IPOs												
Amount ($ Billions)	0.2	0.4	0.9	1.3	1.2	0.1	0.0	0.0	0.0	0.4	0.1	0.1
Number of IPOs	117	324	562	937	659	160	5	6	5	25	7	3

Source: Securities Data Company, Inc.

Note: Initial public offerings data include all IPO issues going public for the first time (excluding rights issues, investment fund share offerings, and issues not underwritten).

Exhibit 23

REPRESENTATIVE LIST OF ASIAN-BASED BUYOUT MANAGERS

Manager	Fund Name	Fund Size	Date Raised	Investment Strategy	Target Countries
Regional Managers					
HSBC Private Equity Asia *	HSBC Private Equity Fund 2	$525m	1997	EC, B	Regional
PAMA Group	PAMA II	$540m	1997	EC, B	Regional
Olympus Capital *	Olympus Capital Asia I	$294m	1998	EC, B	Regional
H&Q Asia Pacific *	Asia Pacific Growth Fund III	$750m	1999	ES, EC, B	Regional
The Carlyle Group	Carlyle Asia Partners I	$750m	1999	B	Regional
JP Morgan Partners Asia	Asia Opportunity Fund I	$1,100m	1999	EC, B	Regional
Baring Privare Equity Partners *	Baring Asia Private Equity I	$305m	1999	ES, EC, B	Regional
Schroder Ventures Asia	Schroder Ventures Asia Pacific I	$500m	1999	EC, B	Regional
CVC Asia Pacific	CVC Capital Partners Asia Pacific I	$750m	2000	EC, B	Regional
Newbridge Capital	Newbridge Asia III	$724m	2000	EC, B	Regional
Warburg Pincus	Warburg Pincus International Partners	$2,500m	2000	ES, EC, B	Global
Navis Asia Partners *	Navis Asia	$70m	2000	EC, B	SE Asia
Castle Harlan	CHAMP I	$275m	2000	EC, B	Australia, SE Asia
Local Managers					
Catalyst Investment Managers	Catalyst MBO Fund IV	$90m	1999	B	Australia
Gresham Private Equity	Gresham Private Equity Fund I	$125m	2000	EC, B	Australia
Pacific Equity Partners	Pacific Equity Partners I	$300m	1998	EC, B	Australia
AMP Henderson	Business Development Fund II	$120m	1998	EC, B	Australia
MKS Consulting	The Japan Venture Fund III	$136m	1999	EC, B	Japan
Ripplewood	New LTCB Partners I	$1,200m	2000	EC, B	Japan
Advantage	Advantage Partners MBI Fund II	$150m	2000	EC, B	Japan
Unison Capital	Unison Capital Partners I	$355m	2000	B	Japan
Apax Globis Partners	Apax Globis Japan Fund I	$168m	1999	ES, EC, B	Japan

Note: B = Buyouts, EC = Expansion Capital, and ES = Early Stage.

* Currently in the process of raising a new fund.

APPENDICES

Appendix A

REPRESENTATIVE KOREAN BUYOUT TRANSACTIONS

In 1999, a buyout firm completed the MBO of Korea's failed and eighth-largest bank, Korea First Bank, investing $500 million for a controlling stake in the business. Post acquisition, a previously non-existent consumer lending business was introduced including mortgage loans, auto loans, and personal credit cards. Consumer lending is now the fastest growing business for Korea First Bank. The deal has not been without its problems. Korea First Bank secured favourable conditions from the South Korean government who agreed to purchase all outstanding bad debts from the bank. However, more recently, the South Korean government has had second thoughts declining to fulfill its prior undertaking leaving the private equity investor with enduring headaches. Similar situations have occurred with other buyout transactions involving financial institutions in Japan highlighting the challenges of buyout investing in Asia.

In 2000, a consortium of buyout investors completed the $430 million MBO of KorAm Bank, one of Korea's leading retail banks. The consortium secured a majority shareholding and controls seven of the 13 board seats. Recently, another South Korean bank, Hana Bank, approached KorAm Bank with a merger proposal. Viewing only minimal synergy from a possible merger, KorAm Bank opposed the deal.

In 2001, a consortium of private equity investors initiated the LBO of the confectionery and packaged food businesses of South Korea's Haitai Confectionery Co ("Haitai"). Haitai was declared bankrupt in 1997 due largely to a failed diversification exercise. However, Haitai's confectionery business remained successful with a 24% market share operating on a cash flow positive basis. The deal, worth $320 million, was structured as an asset sale (cash and debt free) with only operational liabilities, thereby providing the buyers with a clean start. The deal was funded through a $240 million syndicated loan facility and an equity contribution shared equally between the three buyout investors who established a new company, Haitai Food Products, to buy the assets of Haitai.

Other notable South Korean buyout transactions include the $210 million MBO of Mando Climate Control, a manufacturer of specialist air conditioners, heaters, radiators, and oil coolers, which took place in 1999. The $333 million MBO of Mercury Corporation, the telecommunication equipment business of Daewoo Telecom, a subsidiary of the former Daewoo Group in Korea, was concluded in 2000.

In late 1998, a consortium of private equity investors secured the MBO of Good Morning Securities, the retail brokerage and financial distribution products group of a distressed *chaebol*, the Ssangyong Group, acquiring a control position in the company. With a strengthened management team, improved transparency and a restructured balance sheet, the company gained significant market share in the South Korean brokerage industry. The investment was successfully realised in April 2002 when South Korea's Shinhan Financial Group purchased the consortium's holding in Good Morning Securities to the tune of $300 million, equivalent to a return of almost seven times the original capital invested.

Similarly, in September 1999, a regional private equity investor successfully completed the MBO of Foodstar, acquiring a 75% holding in a distressed South Korean family business with the franchise rights to TGI Friday's restaurants in South Korea. Following a rapid expansion into 20 restaurant outlets, the investment was fully realised in June 2002. A strategic buyer (backed by the original family owners of the business, who had retained a 25% stake) purchased the financial investor's holding for $55 million, equivalent to more than two times the original investment.

Appendix B

GLOSSARY OF TERMS

In general, **buyout investments** are capital investments to acquire controlling positions in mature companies with strong cash flow. However, there are several types of buyout.

A **Management Buyout (MBO)** is the acquisition of a company by the existing management team, backed by private equity investors. This is the traditional model for buyout investing and a typical example would be the purchase of a non-core subsidiary from a large corporation. Either existing management or private equity investors may initiate an MBO.

In contrast, a **Management Buy-in (MBI)** transaction results in the replacement of the current management team with new managers whose compensation includes some ownership of the business. Such deals are usually initiated by private equity investors and often involve a founding owner/manager who wishes to retire and does not have suitable successors or subordinates capable of managing the enterprise.

Finally, a **Leverage Buyout (LBO)** may be an MBO or an MBI, but is distinguished by the predominance of debt financing as the means of effecting the transaction.