Private Equity & Venture Capital in Asia

Observations in the context of Family Businesses & Family Offices

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Academic Director; Global Private Equity Initiative (GPEI)

INSEAD
Private Equity & Venture Capital

Ecosystem & Dynamics
**Private Capital – Not just Private Equity**

**Strong Performance** drives **Growth & Diversification** of **Assets Under Management** ($billions)

Source: Preqin

Note: 2017 data is as of 30 June 2017.
Global PE AUM – by Investment Type

<table>
<thead>
<tr>
<th>region</th>
<th>Buyout Funds</th>
<th>Growth Capital Funds</th>
<th>Venture Capital Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>282.9</td>
<td>974.0</td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>164.8</td>
<td>515.9</td>
<td>65.4</td>
</tr>
<tr>
<td>Asia</td>
<td>161.7</td>
<td>218.3</td>
<td>172.9</td>
</tr>
</tbody>
</table>

To Note:
- Asia has the largest amount of AUM in Growth Equity funds.
- Venture funds in Asia show a larger AUM than Europe.

Source: Preqin

Note: Data excludes Co-investment & Co-investment Multi-Manager, Natural Resources, Private Debt, Infrastructure, and Real Estate.
In 2017 DRY POWDER reached a record of $970bn globally.
Impact On Valuations

Purchase Price Multiples (EV/EBITDA) – Liquidity-fueled Inflation

Source: PNC, Bain

* Debt and other capital
Investors anchored on PE continuing to outperform

US / European public pension plans’ median net IRR from various asset classes
10 years to 30 June 2017

- **Total investment portfolio**: 4.9%
- **Listed equity**: 4.3%
- **Fixed income**: 5.4%
- **Private equity**: 8.5%
- **Hedge funds**: 1.9%
- **Real estate**: 4.9%

Source: Sample of 150+ public Pension plans in EU & US; Preqin

Note: 2017 data is as of 30 June 2017.
PE as a Transformation Agent

‘More than Private Equity – Skilled Industrialists’
Active Ownership model of Private Equity

LPs → PE Firm → Board of Directors (provide governance) → Management (runs company)

PE Firm Engagement

- 100-Day Plan
- Refinancing
- Divestitures and M&A
- Exit

External Resources

- Executive Mentors
- Advisors (Lawyers, bankers, consultants)
- PE Firm Network

Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts", C. Zeisberger, B. White, M. Prahl
Governance Principles in Minority Settings

Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts"; C. Zeisberger; B. White; M. Prahl
Defining Characteristics of Growth Equity

Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts"; C. Zeisberger; B. White; M. Prahl
Operational Value Creation Support

External Resources
- Executive Mentors
- Operating Partners

Internal Resources
- Consultants
- Operating Teams

Management Advisory

Full-Service Value Creation

In-house or Outsourced?

Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts", C. Zeisberger; B. White; M. Prahl
INSEAD Value Creation 2.0

Change in valuation multiple (Usually EBITDA multiple).

Change in annual operating cash flow, typically using EBITDA as a proxy.

Change in net debt, a measure showing cash generation during the holding period.

Value Creation

Invested Capital

Equity Value AT Exit

Standard Measure in the Past – Not good enough

Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts", C. Zeisberger; B. White; M. Prahl
IVC 2.0 – Isolating Alpha

Source: INSEAD GPEI
Private Equity Investors in Family Businesses

When Interests Align
While family firms’ and PE firms’ motivations may differ, in some instances their interests overlap, particularly for family firms in transition. **PE firms can provide tailored solutions to meet the specific needs of a family firm.**

**Family Firm**
- Values-based
- Managerial freedom
- Long-term horizon
- Family-oriented goals

**Partnership**
- Unlocking growth
- Managing succession
- Enabling business transformation

**PE Firm**
- Performance-oriented goals
- Managerial guidelines
- Short-term & finite horizon
- PE tool kit
Private Equity & Family Business

The Challenge of Generational Transition in Asia
Family Businesses have Impact - Globally

50% of all companies in the US & Europe are Family Businesses.

In Asia more than 70/95% of all businesses, in Southeast Asia 85%, and billion-plus businesses are family run.
Over 30% of Asia’s family businesses will go through a generational change in the coming 5 years.

Not always is the next generation able or willing to step into the shoes of their elders.

Bringing in the right Private Equity partner allows family businesses to ensure business continuation and institutionalization to facilitate sustained growth.
Role of Private Capital in a Family Portfolio

Trends in Family Office Investment Behaviour
More Family Offices are Investing in PE

Institutional Investors in Private Equity by Type, Jan 2013 vs Jan 2018

Over a 5-year period pre-2018, the number of family offices investing in PE doubled from 5% to 10% (635) of total active institutional investors in PE.
How to include PE in a Portfolio

How Family Offices get Involved

1. Start with FoFs
2. Allocate to some local PE & VC funds
3. Request segregated accounts
4. … and Co-Investments with the GP
5. Direct - minority investments
6. Direct – control deals

As the portfolio evolves, the fast growing Secondaries market offers liquidity & allows FOs to manage their portfolio to ensure diversification.

.... from passive to Active investors
Family Offices – An Important Source of Capital for Fund Managers

Although family offices represented only 2% of total capital currently invested in PE, they represent 16% of capital raised by funds closed in 2015-2017, most significant investor after public pension fund.

Proportion of Capital Committed to the Average Private Equity Fund Closed by Investor Type, 2012 - 2017

Source: Preqin 2018 Global Private Equity & Venture Capital Report

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Family Offices Have Fewer Restrictions and More Flexibility to Invest in PE

Family offices maintain an average target allocation well above other investor types, at 29.9% of total assets.

Source: Preqin 2018 Global Private Equity & Venture Capital Report
Family Offices are Keen to CO-INVEST

**Top reasons for co-investing:**

1. Opportunity to invest directly
2. Access to deals
3. Opportunity to collaborate with like-minded investors
4. Potential for higher returns
5. Cost advantage

Based on 345 single and multi-family offices’ input in Preqin’s database, 75% indicated they have either co-invested with GPs or will consider co-investments with GPs.

... and a chance to learn from the Best
But Easier Said Than Done ...

6 in 10 of all participating respondents (57.4%) in UBS/Campden survey pointed to **hardships that relate to sourcing attractive deals** as the key challenge associated with co-investing.
"Family offices’ direct investment into startups picked up the pace"
What can go Wrong?

Reality & Risks of early-stage Venture Investing
What are venture capital funds (VCs)?

Minority investors, acquiring Equity stakes in early-stage companies. Investments are made under significant uncertainty.

Source: ‘Mastering Private Equity – Transformation via Venture Capital, Minority Investments & Buyouts’; C. Zeisberger; M. Prah; B. White; Wiley 2017
IPO April 2018

Wework $20bn

Dropbox $10.4bn

Airbnb $31bn

Palantir $20.3bn

Lyft $11.5bn

Pinterest $12.3bn

Uber $69bn

Space X $21bn
# Asian Start-ups - VC Funded

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Industry</th>
<th>Last Valuation</th>
<th>Total Funding</th>
<th>Rounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Didi Chuxing</strong>, China</td>
<td>China</td>
<td>Mobile Apps, Transportation</td>
<td>$52bn</td>
<td>$19.7bn</td>
<td>14</td>
</tr>
<tr>
<td><strong>Flipkart</strong>, India</td>
<td>India</td>
<td>E-Commerce, Retail</td>
<td>$10.2bn</td>
<td>$7.3bn</td>
<td>18</td>
</tr>
<tr>
<td><strong>Meituan-Dianping</strong>, China</td>
<td>China</td>
<td>Advertising, Guides, Information Services, Local Business</td>
<td>$26bn</td>
<td>$8.3bn</td>
<td>9</td>
</tr>
<tr>
<td><strong>Xiaomi</strong>, China</td>
<td>China</td>
<td>Consumer Electronics, Internet, Mobile</td>
<td>$43.9bn</td>
<td>$3.4bn</td>
<td>9</td>
</tr>
<tr>
<td><strong>Ant Financial</strong>, China</td>
<td>China</td>
<td>E-Commerce, FinTech, Payments</td>
<td>$55.5bn</td>
<td>$4.5bn</td>
<td>4</td>
</tr>
<tr>
<td><strong>Toutiao</strong>, China</td>
<td>China</td>
<td>Analytics, Big Data, Data Mining</td>
<td>$18bn</td>
<td>$3.1bn</td>
<td>5</td>
</tr>
<tr>
<td><strong>Grab</strong>, Singapore</td>
<td>Singapore</td>
<td>Mobile, Ride Sharing, Transportation</td>
<td>$4bn</td>
<td>$4.1bn</td>
<td>11</td>
</tr>
<tr>
<td><strong>Ele.me</strong>, China</td>
<td>China</td>
<td>E-Commerce, Food Delivery</td>
<td>$5bn</td>
<td>$3.3bn</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Crunchbase
VC as a business of investing in outliers

The venture capital business is a 100% game of outliers - it’s extreme exceptions.

…on the order of 4000 ‘fundable’ companies a year, that want to raise venture capital.

…about 200 of those will get funded by what’s considered a ’top tier VC’

…about 15 of those will someday get to a 100M in revenue

…and those 15 from that year, will generate something on the order of 97% of all the returns for the entire category of VC in that year.

Marc Andreessen
Distribution of returns in a VC portfolio

2 great successes: One returns the fund’s capital and the other provides the return.

A few companies break-even.

Majority of companies fail.
Changing at Speed

Trends in the Global VC Ecosystem
VC-backed Companies – a provider of “outsourced R&D”? 

Source: (1) NDX 100 R&D expense as % of revenue; Capital IQ; Data as of 31 Dec 2017 
(2) S&P 500 Cash balance as % of current assets; Capital IQ; Data as of 31 Dec 2017
Increasing relevance of VC to corporate acquirers

NON-Tech Corporate Buyers of VC-backed Companies

![Logos of Walmart, GM, Unilever, Williams Sonoma, Whirlpool, Jet, Cruise, Outward, Dollar Shave Club, and Yummly.](image-url)
High levels of activity among corporate VCs (CVCs)

Source: Pitchbook; US only data

The fast rising number of corporates wanting to join early stage investing. #MeToo?
VC deals increasing in size over time

Average Size of Round (in US$ millions)

Source: Prequin & GPEI research
Venture Success

Billion dollar rounds – unheard of in early rounds till 2014

Top Ten Largest VC Rounds In July 2018

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>Sector</th>
<th>Round Type</th>
<th>$ Raised (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JD Finance</td>
<td>Beijing, China</td>
<td>Financial services</td>
<td>Series B</td>
<td>$1.90B</td>
</tr>
<tr>
<td>China Media Capital</td>
<td>Shanghai, China</td>
<td>Media and entertainment</td>
<td>Series A</td>
<td>$1.46B</td>
</tr>
<tr>
<td>WndrCo LLC</td>
<td>Beverly Hills, California, USA</td>
<td>Media and entertainment</td>
<td>Venture - Series Unknown</td>
<td>$1.00B</td>
</tr>
<tr>
<td>JUUL</td>
<td>San Francisco, California, USA</td>
<td>Electronic cigarettes</td>
<td>Venture - Series Unknown</td>
<td>$650M (out of a $1.25B round)</td>
</tr>
<tr>
<td>Suning Sports</td>
<td>Nanjing, Jiangsu, China</td>
<td>Sports</td>
<td>Series A</td>
<td>$600M</td>
</tr>
<tr>
<td>Zoox</td>
<td>Foster City, California, USA</td>
<td>Autonomous vehicles</td>
<td>Series B</td>
<td>$500M</td>
</tr>
<tr>
<td>WeWork China</td>
<td>Shanghai, China</td>
<td>Co-working and commercial real estate</td>
<td>Series B</td>
<td>$500M</td>
</tr>
<tr>
<td>Didi Chuxing</td>
<td>Beijing, China</td>
<td>On-demand transportation</td>
<td>Corporate Venture Round</td>
<td>$500M</td>
</tr>
<tr>
<td>Zuoyebang</td>
<td>Beijing, China</td>
<td>Education</td>
<td>Series D</td>
<td>$350M</td>
</tr>
<tr>
<td>Lime</td>
<td>San Mateo, California, USA</td>
<td>On-demand last mile transportation</td>
<td>Series C</td>
<td>$335M</td>
</tr>
</tbody>
</table>

crunchbase news
Venture in China

A closer Look
US VC still dominates - Asia is larger than Europe

Venture Funds raised by Manager Country; Vintage 2017 (in mn USD and by VC location).

<table>
<thead>
<tr>
<th>Country</th>
<th>Funds Raised (mn USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>36,325</td>
</tr>
<tr>
<td>China</td>
<td>8,121</td>
</tr>
<tr>
<td>UK</td>
<td>2,479</td>
</tr>
<tr>
<td>France</td>
<td>1,099</td>
</tr>
<tr>
<td>Malaysia</td>
<td>955</td>
</tr>
<tr>
<td>Australia</td>
<td>626</td>
</tr>
<tr>
<td>Israel</td>
<td>559</td>
</tr>
<tr>
<td>Canada</td>
<td>495</td>
</tr>
<tr>
<td>Singapore</td>
<td>479</td>
</tr>
<tr>
<td>Germany</td>
<td>450</td>
</tr>
</tbody>
</table>

Note: Data includes all: Early Stage, Early Stage: Seed, Early Stage: Start-up, Expansion / Late Stage, Venture (General) and Venture Debt.

Source: Preqin & GPEI research
Venture capital investments in China have exploded since 2014. China now rivals the US as a hub of VC activity and the target for venture investing.

Note: Asian VC deal activity by Investee Company Location
Data excludes Add-on, Grant, Growth Capital/Expansion, Merger, PIPE, Pre-IPO, Secondary Stock Purchase & Venture Debt.

Source: Preqin
China’s venture capital (VC) sector has moved into the fast lane. For the first time, Chinese start-ups have attracted more funding than their US counterparts.

Is China on its way to becoming the world’s largest VC market? Can its growth rate be sustained? What challenges lie ahead – and what will it take for China to move into pole position in the race for global venture capital?
Chinese start-ups have for the first time attracted more funding than their US counterparts.
### 10 Largest Unicorns Globally

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Post-Money Valuation ($bn)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ant Financial Services Group</td>
<td>150.0</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Uber Technologies, Inc.</td>
<td>71.5</td>
<td>US</td>
</tr>
<tr>
<td>3</td>
<td>Didi Chuxing</td>
<td>56.0</td>
<td>China</td>
</tr>
<tr>
<td>4</td>
<td>Airbnb</td>
<td>31.0</td>
<td>US</td>
</tr>
<tr>
<td>5</td>
<td>Tongcheng Network Technology Co., Ltd.</td>
<td>30.0</td>
<td>China</td>
</tr>
<tr>
<td>6</td>
<td>WeWork Companies Inc.</td>
<td>21.1</td>
<td>US</td>
</tr>
<tr>
<td>7</td>
<td>Palantir Technologies Inc.</td>
<td>20.4</td>
<td>US</td>
</tr>
<tr>
<td>8</td>
<td>Toutiao</td>
<td>20.0</td>
<td>China</td>
</tr>
<tr>
<td>9</td>
<td>Shanghai Lujiazui International Financial Asset Exchange Co., Ltd</td>
<td>18.5</td>
<td>China</td>
</tr>
<tr>
<td>10</td>
<td>Pinterest, Inc.</td>
<td>12.3</td>
<td>US</td>
</tr>
</tbody>
</table>

5 of the top 10 current mega-unicorns originate from China, with the remaining 5 from the US.
### 5 Largest IPOs of Unicorns Globally

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>IPO Valuation ($bn)</th>
<th>Headquarters</th>
<th>IPO Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Alibaba Group</td>
<td>231.0</td>
<td>China</td>
<td>US</td>
</tr>
<tr>
<td>2</td>
<td>Facebook, Inc.</td>
<td>104.0</td>
<td>US</td>
<td>US</td>
</tr>
<tr>
<td>3</td>
<td>Meituan-Dianping</td>
<td>55.0</td>
<td>China</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>4</td>
<td>Xiaomi Inc.</td>
<td>53.9</td>
<td>China</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>5</td>
<td>Snap Inc.</td>
<td>33.0</td>
<td>US</td>
<td>US</td>
</tr>
</tbody>
</table>

Three of the top five IPOs of unicorns (in terms of company valuation at IPO) were Chinese companies.
The most common exit routes are IPOs and trade sales

- Despite continuous efforts to improve its IPO rules, China has not yet managed to find an optimal solution
- Trade sales are another popular exit strategy and the biggest acquirers in the market are the BAT companies

It remains to be seen whether the exit options are mature enough to absorb the many exits to come

*Other' includes Sale to GP, Merger, Private Placement, Restructuring, Sale to Management and Unspecified Exit. It excludes Write-off.
... interested to learn more about Venture Capital?

Follow Professor Claudia Zeisberger on social media or explore her recently published books with a foreword by Henry Kravis, Co-Chairman & Co-CEO of KKR & contributions from senior PE industry professionals.
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Thank you!

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Increasing focus on Impact Investing

As family wealth is transferred down to the next generation of millennials, these new owners are more likely to adopt impact investing as a more efficient use of family wealth to create social impact than traditionally favoured philanthropy.