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Private Equity & Venture Capital in Asia

Observations in the context of Family Businesses & Family Offices



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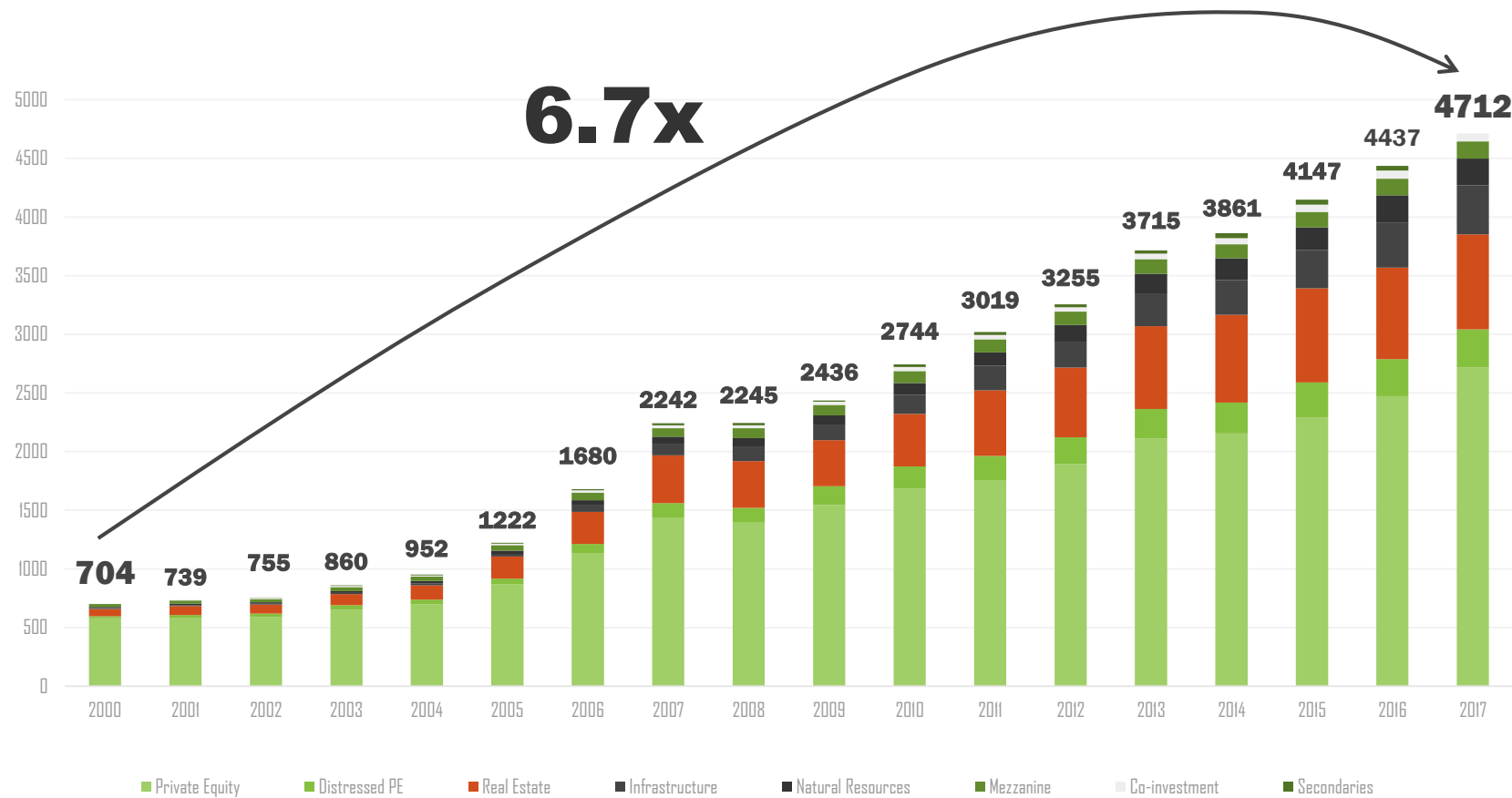
An aerial photograph of a city skyline, likely Chicago, with numerous skyscrapers and a body of water in the background. A thick, green diagonal stripe runs from the bottom left towards the top right, partially obscuring the city view.

Private Equity & Venture Capital

Ecosystem & Dynamics

Private Capital – Not just Private Equity

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



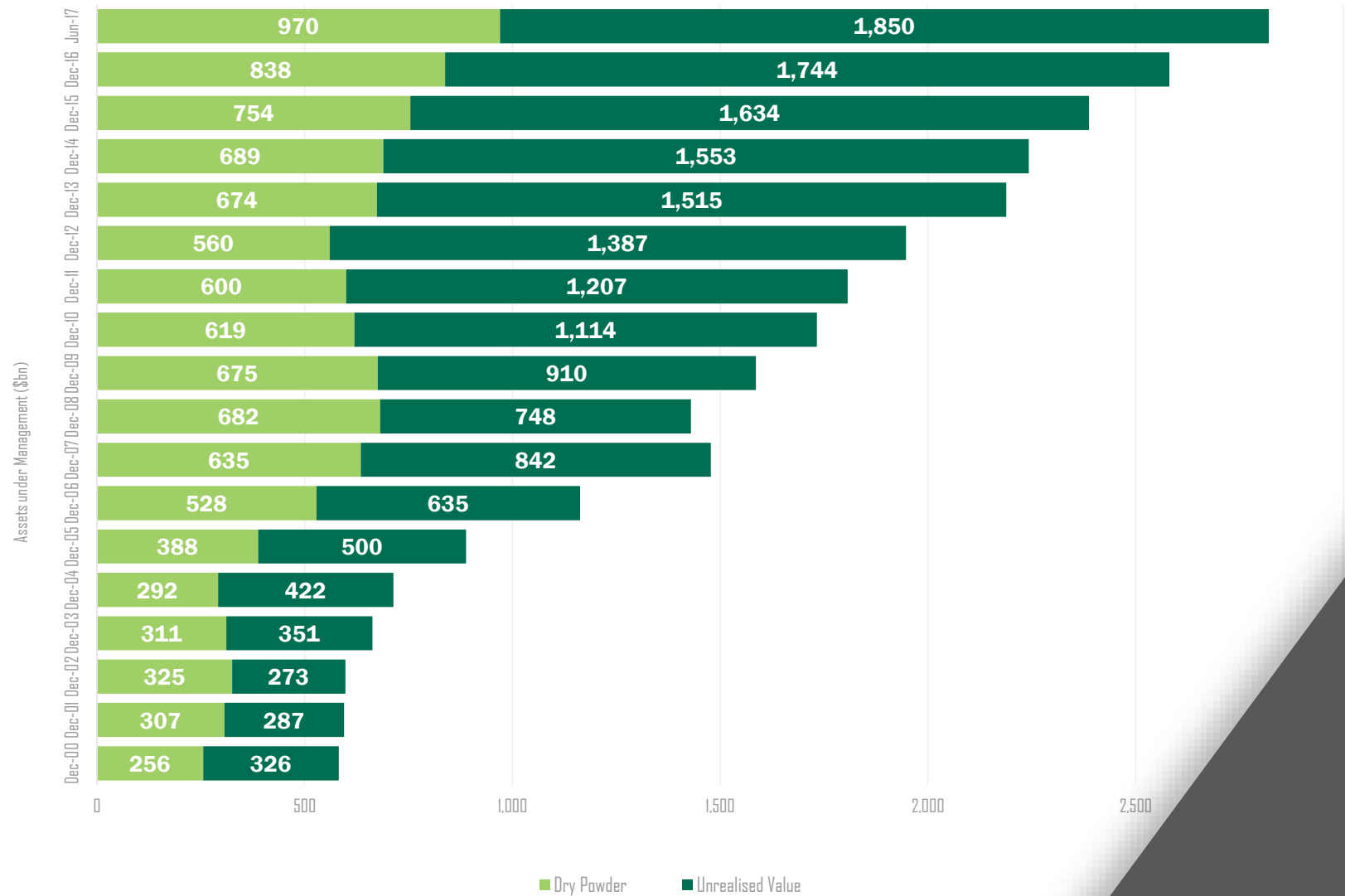
Global PE AUM – by Investment Type



To Note:

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

Private Equity – Dry Powder & Industry Sentiment



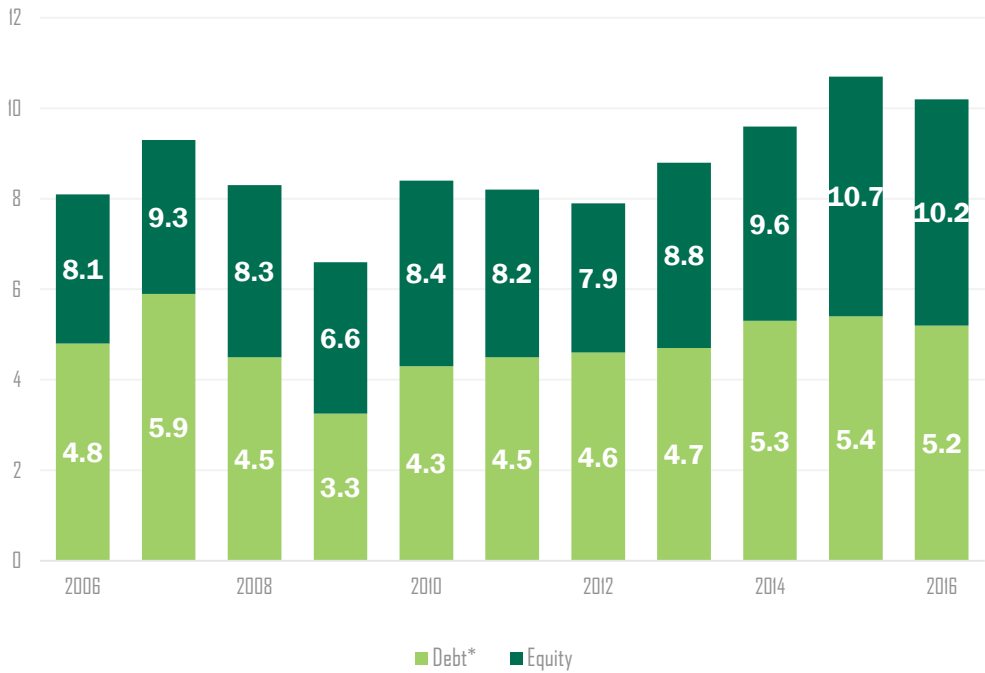
In 2017 DRY POWDER
reached a record of
\$970bn
globally.

Impact On Valuations

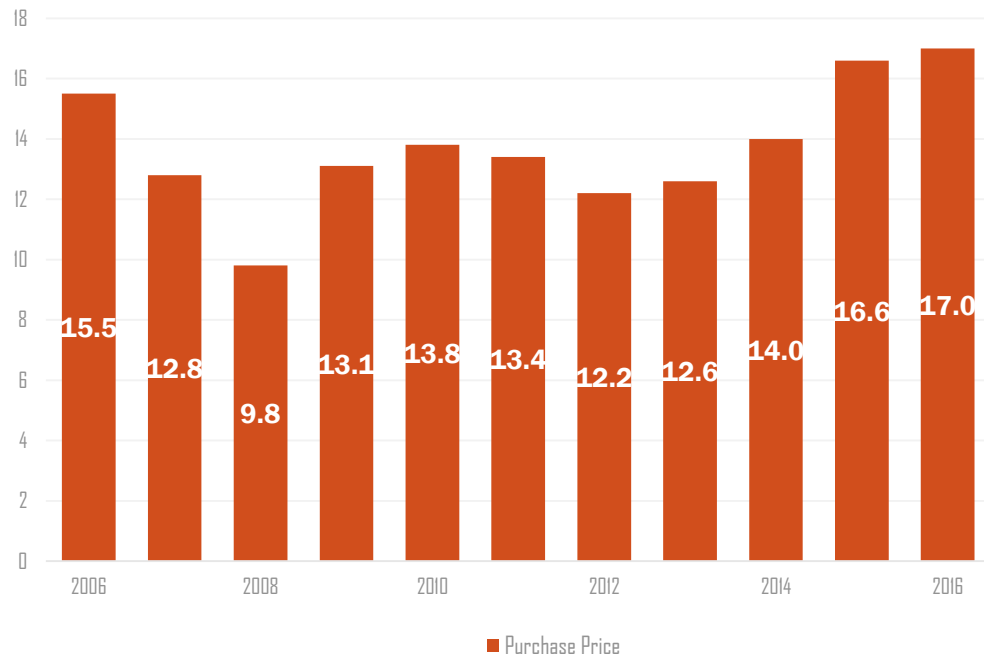
Purchase Price Multiples (EV/EBITDA) – Liquidity-fueled Inflation



US Mid-market LBOs

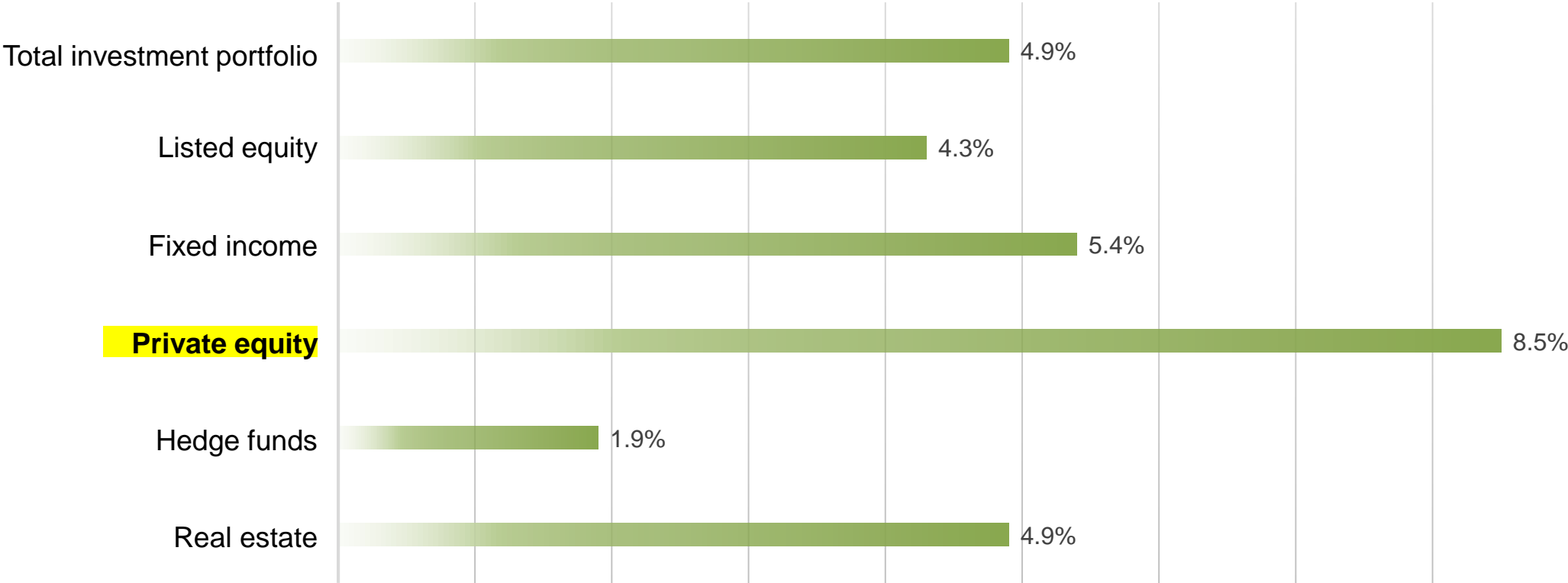


APAC PE-Backed M&A



Investors anchored on PE continuing to outperform

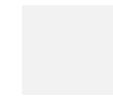
US / European public pension plans' median net IRR from various asset classes
10 years to 30 June 2017



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

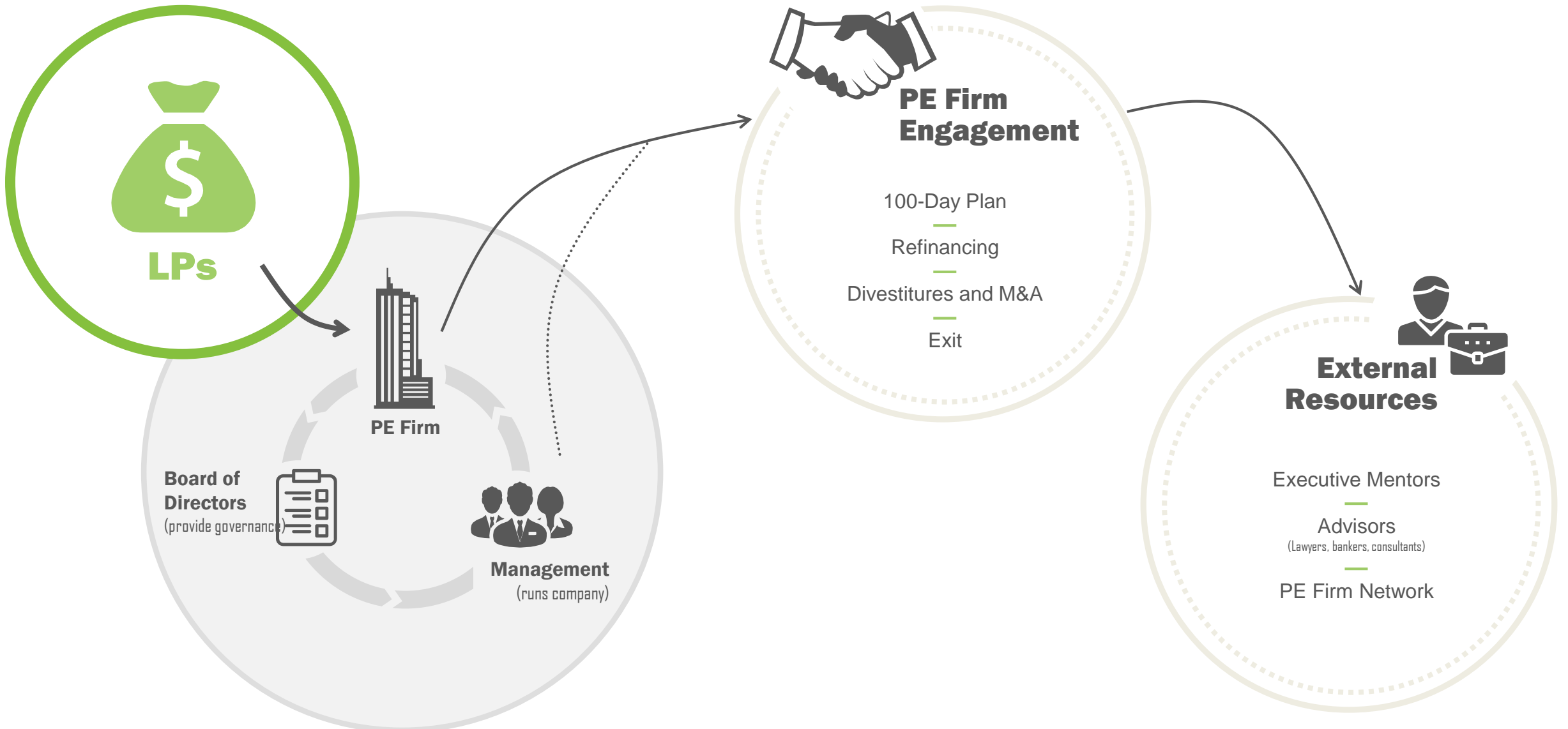
Note: 2017 data is as of 30 June 2017.

PE as a Transformation Agent

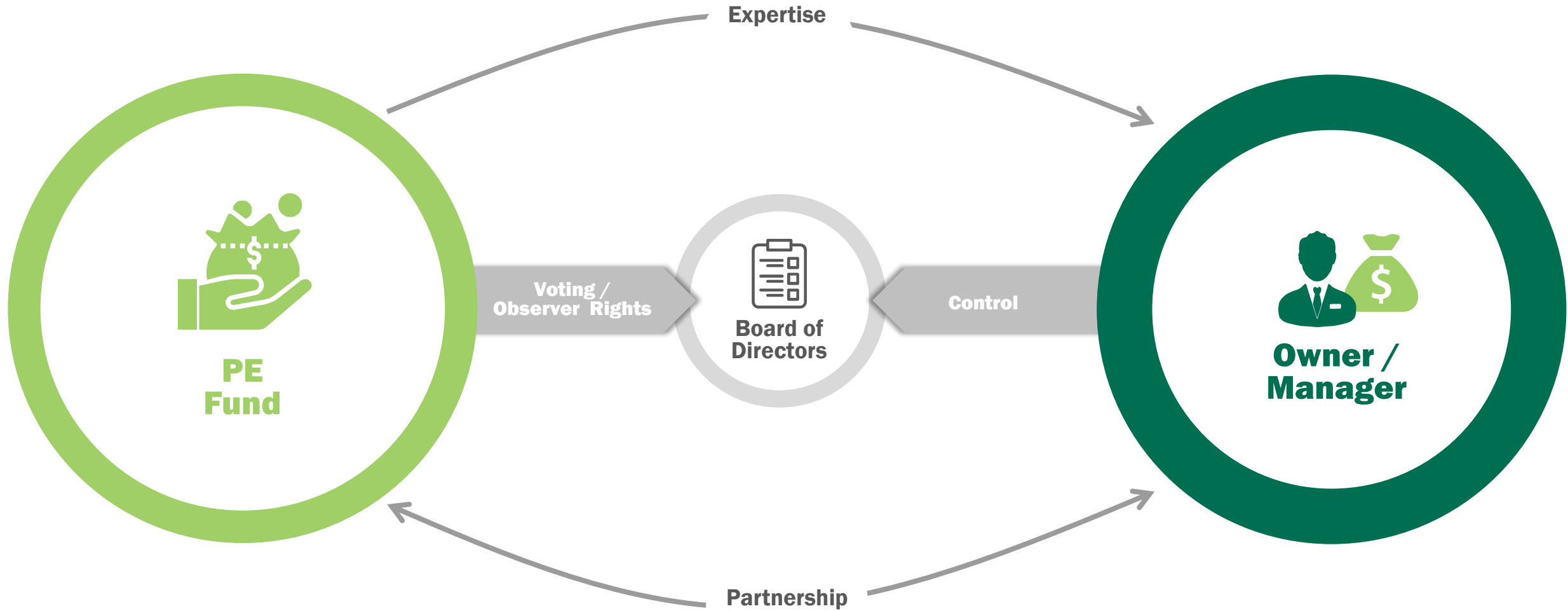


**‘More than Private Equity –
Skilled Industrialists’**

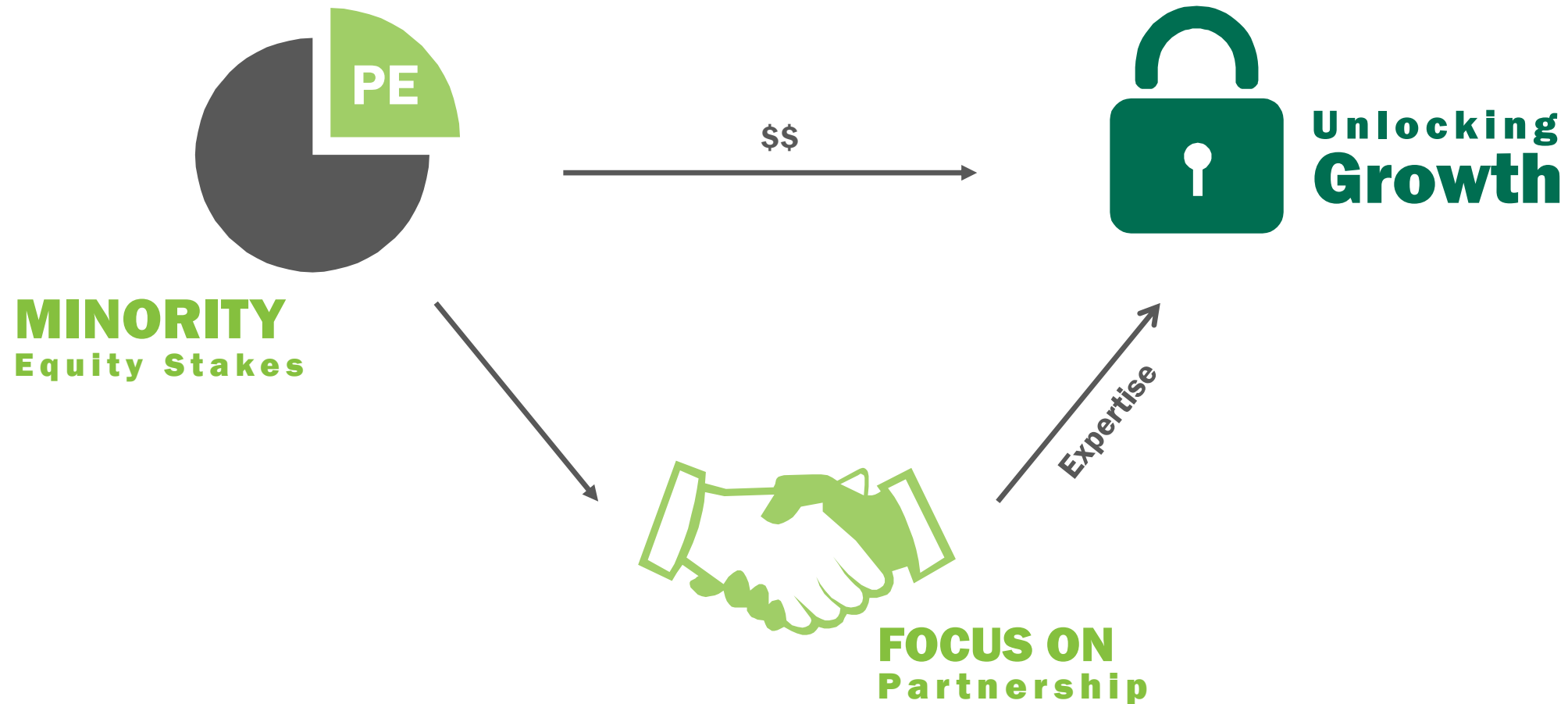
Active Ownership model of Private Equity



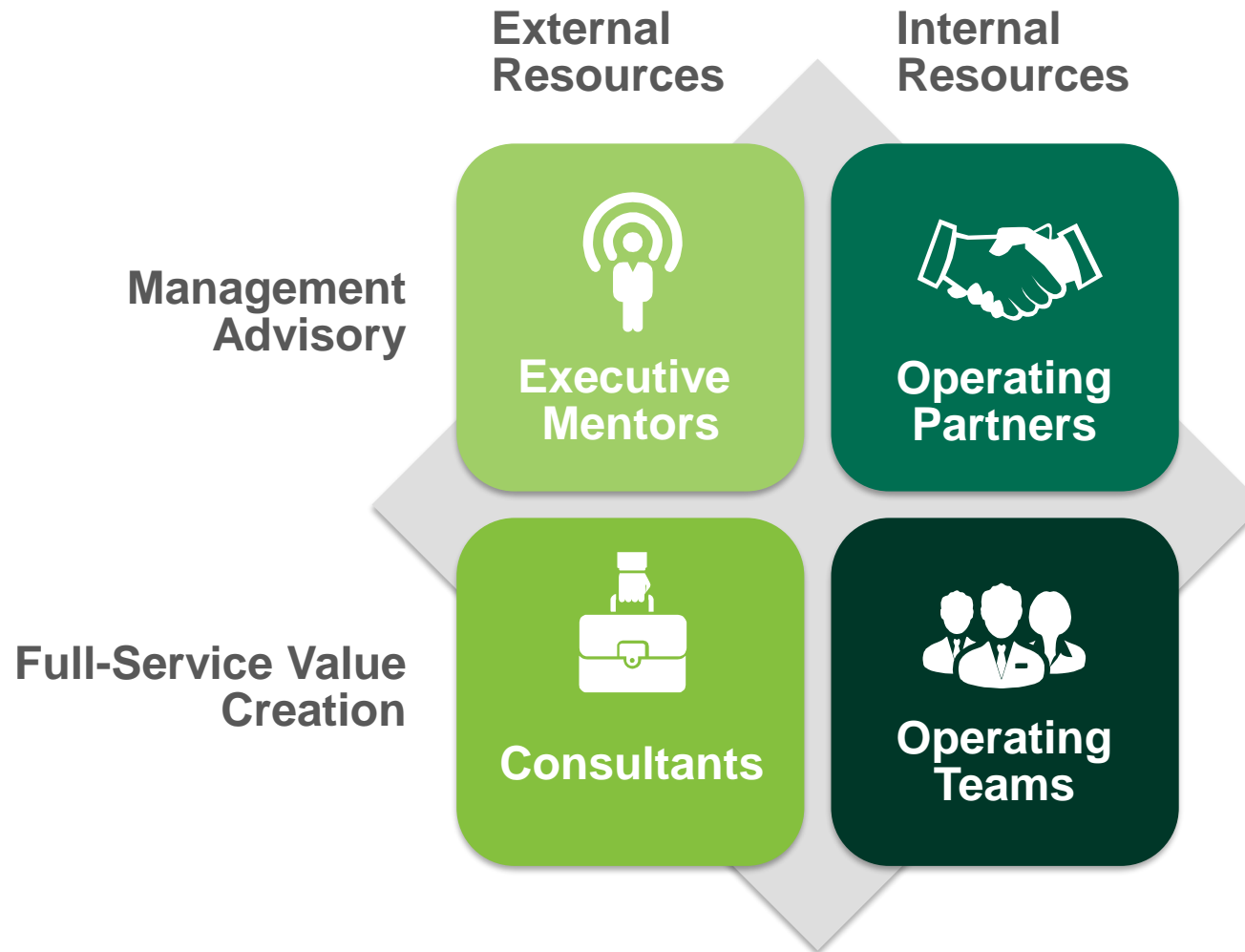
Governance Principles in Minority Settings



Defining Characteristics of Growth Equity

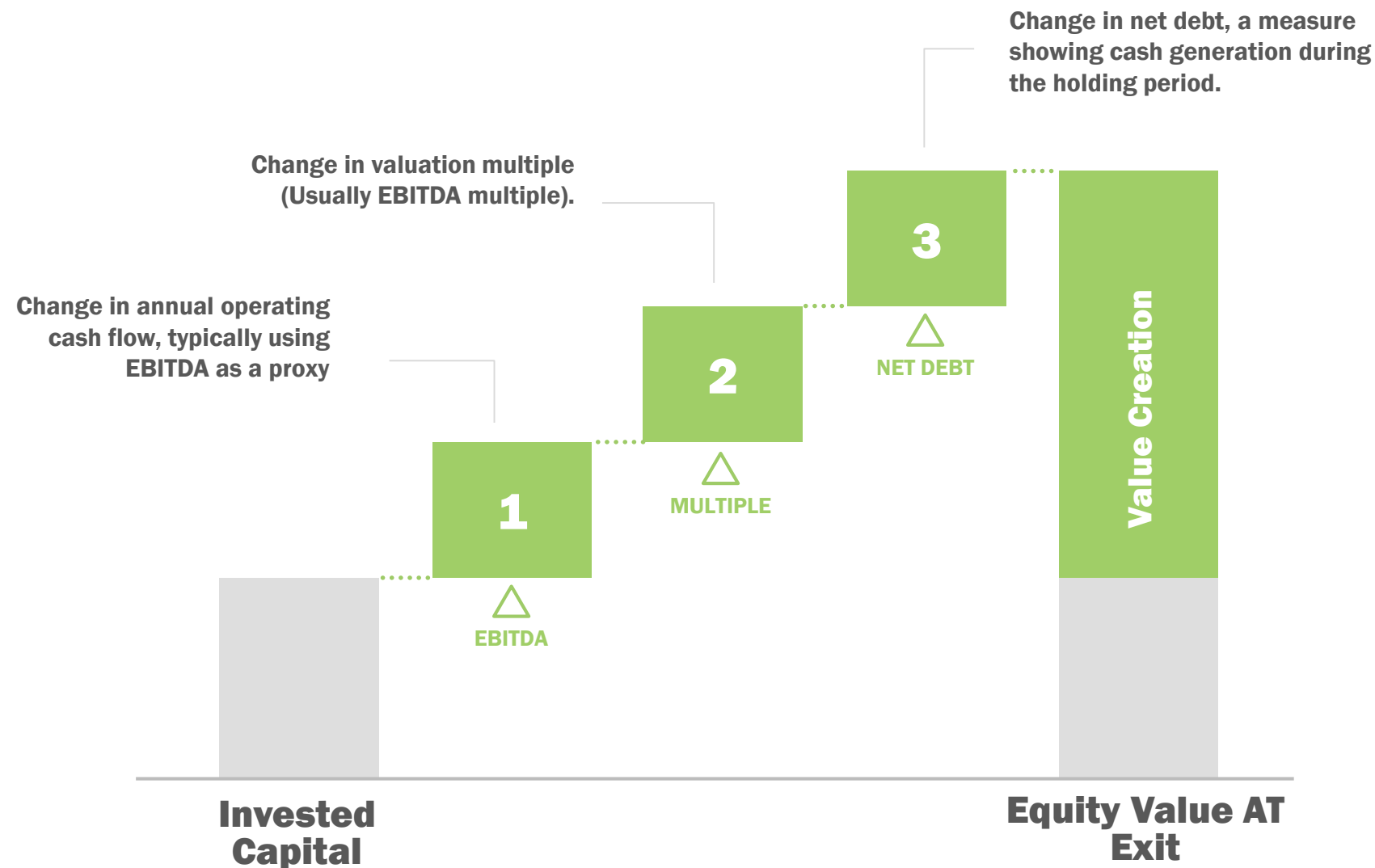


Operational Value Creation Support



In-house or Outsourced?

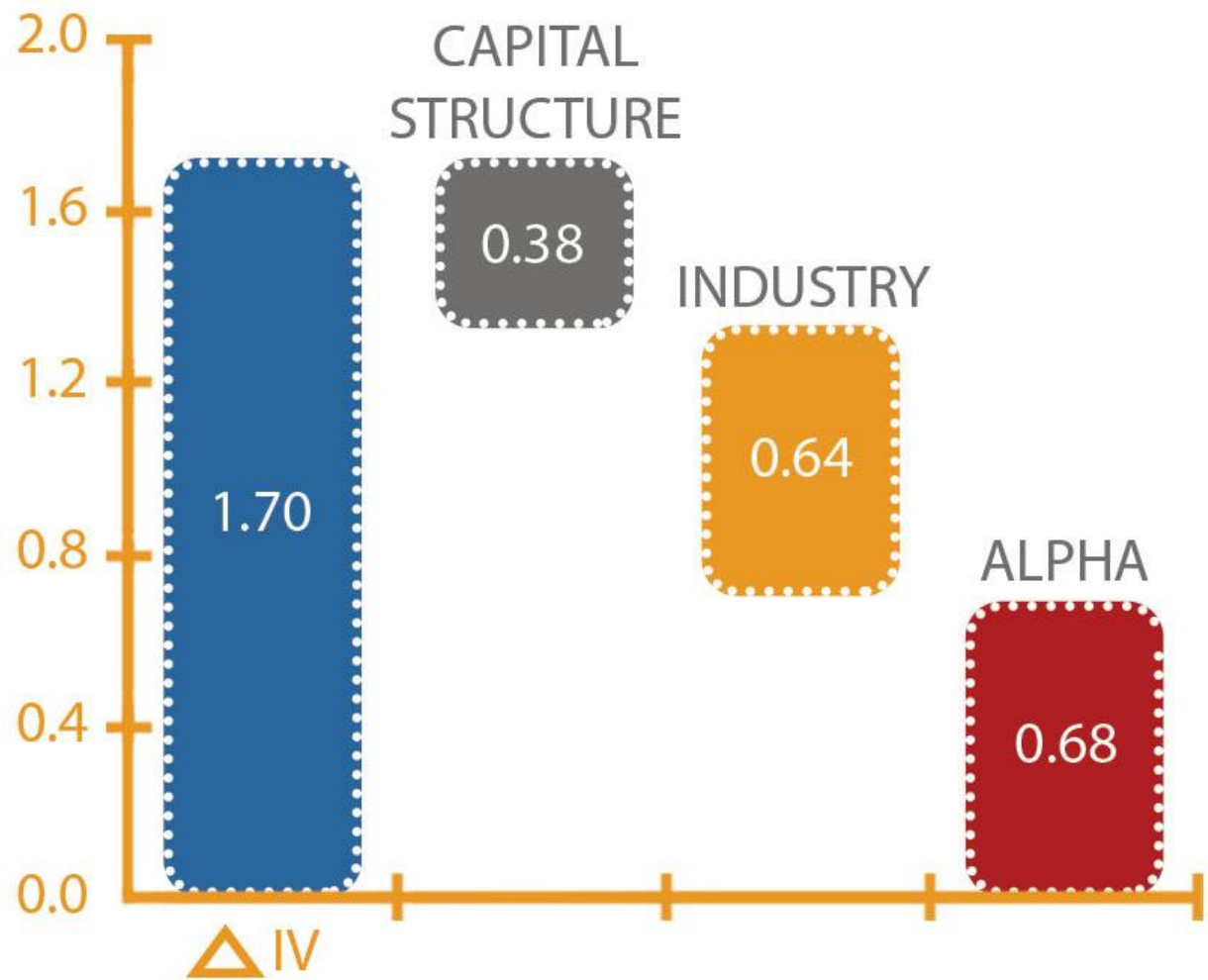
INSEAD Value Creation 2.0



Standard Measure in the Past – **Not good enough**

IVC 2.0 – Isolating Alpha

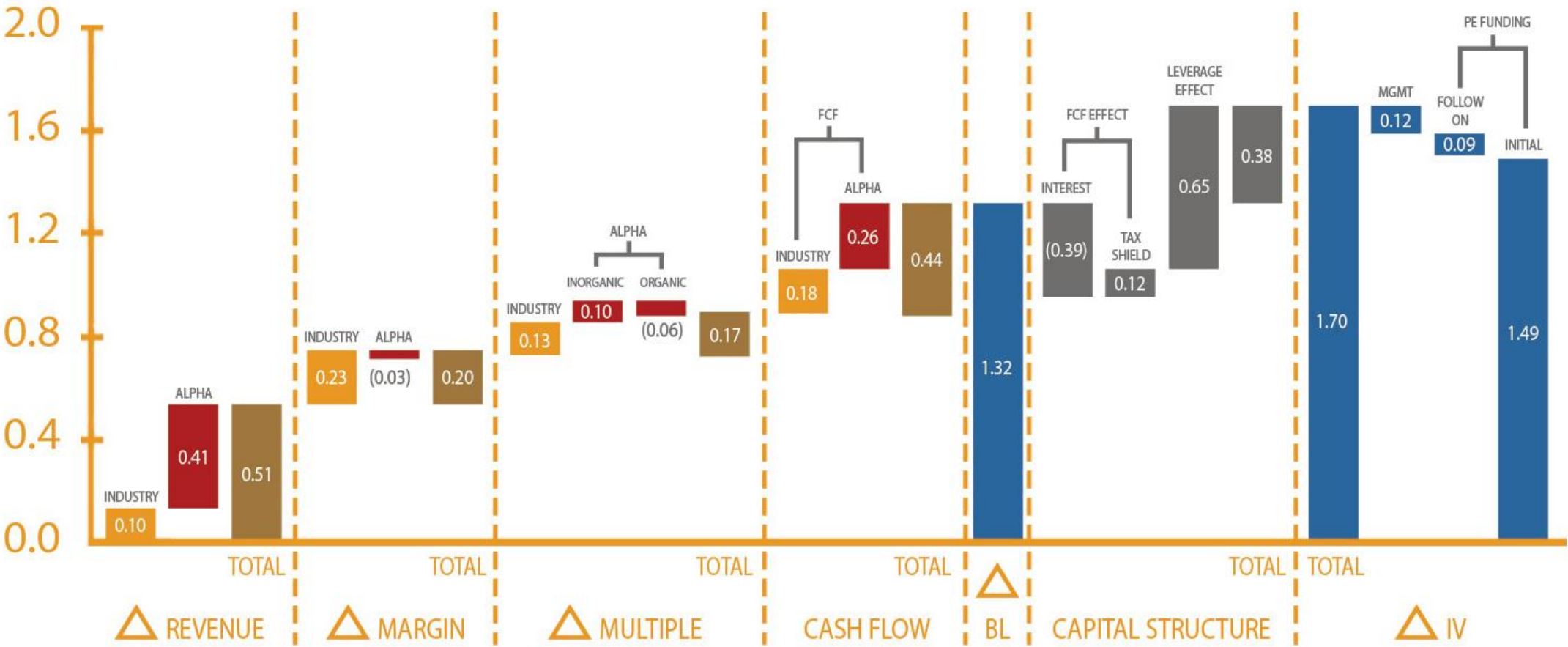
New Model



Source: INSEAD GPEI

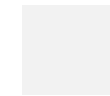
INSEAD Value Creation 2.0

New Model



Source: "Mastering Private Equity – Transformation via Venture Capital, Minority Stakes & Buyouts"; C. Zeisberger; B. White; M. Pahl

Private Equity Investors in Family Businesses



When Interests Align

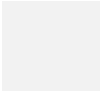
The PE Perspective

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.



Private Equity & Family Business



The Challenge of Generational Transition in Asia

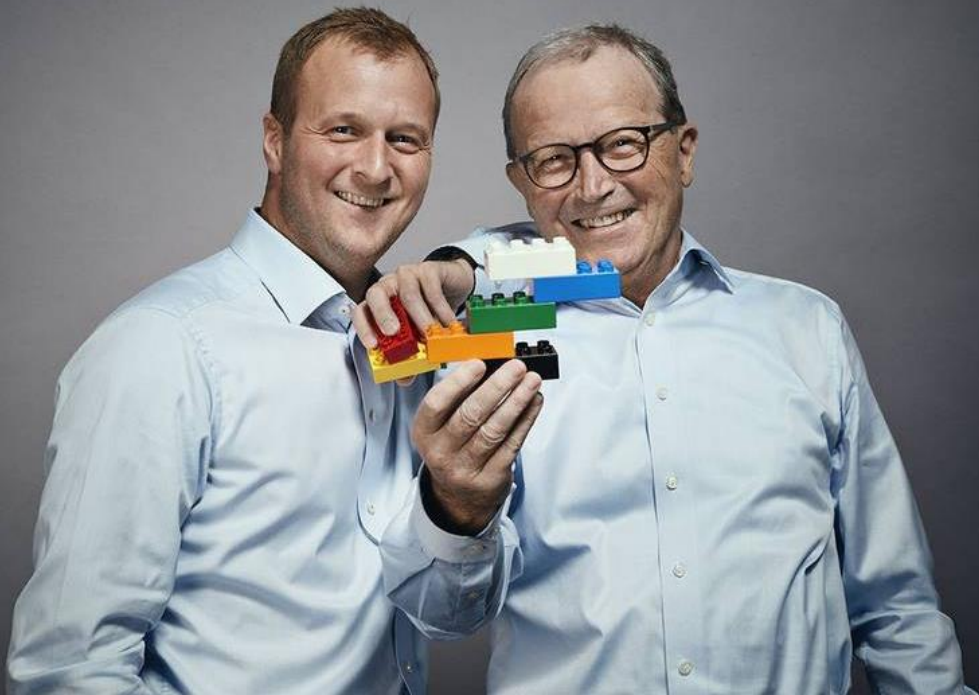
Family Businesses have Impact - Globally



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



In Asia more than 70% of all family-owned;
in Southeast Asia 85% of billion-plus
businesses are family run.



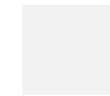
Over **30% of Asia's family businesses** will go through a generational change in the coming 5 years.

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.



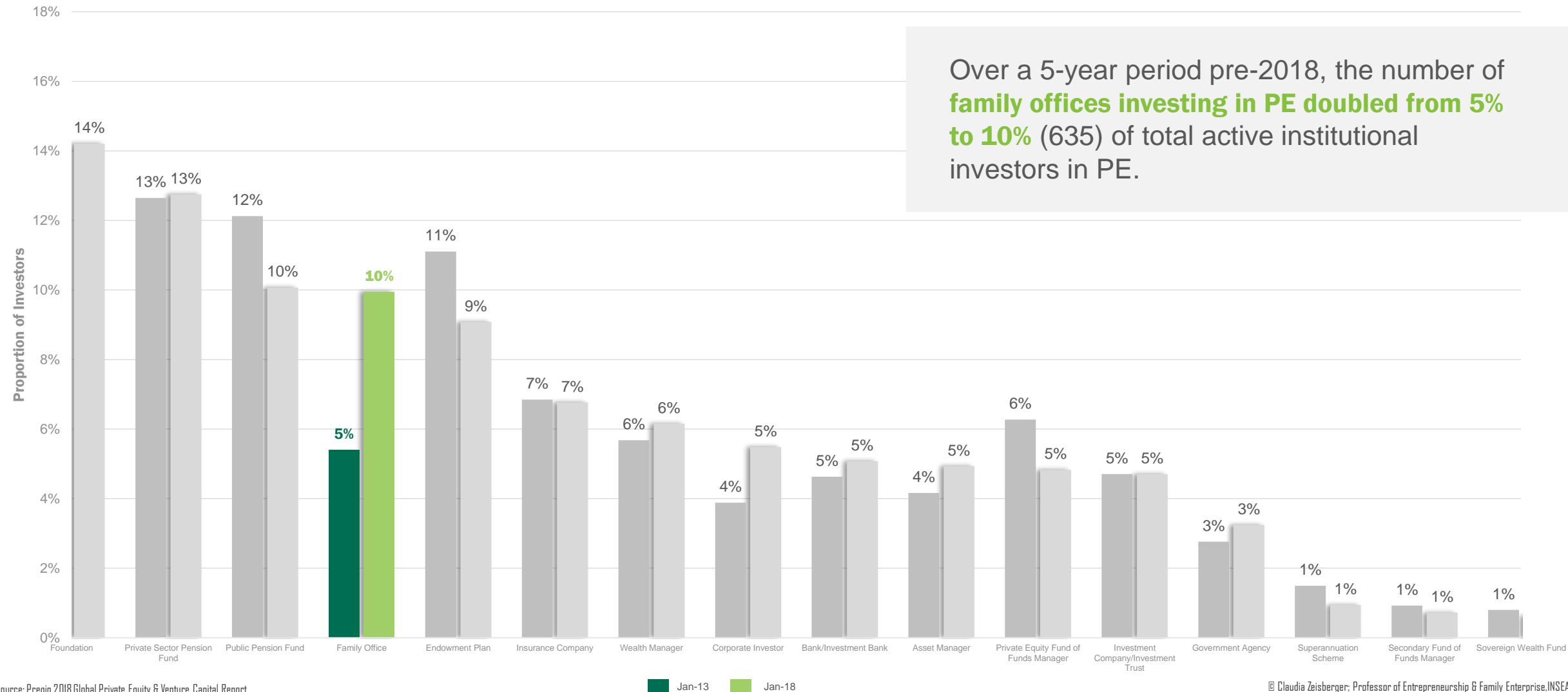
Role of Private Capital in a Family Portfolio



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

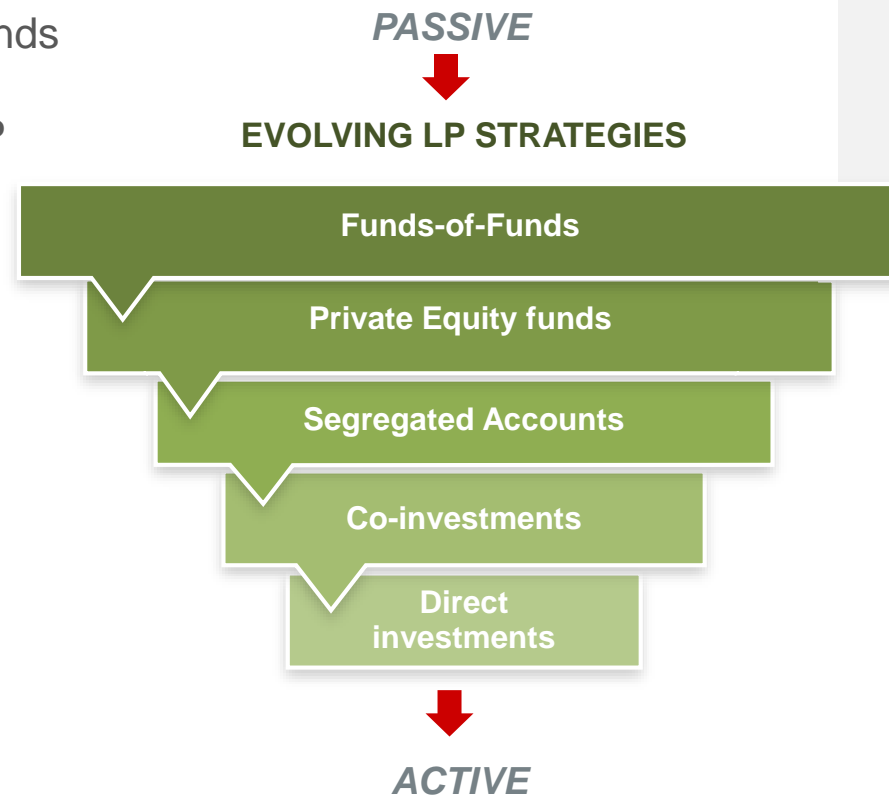


How to include PE in a Portfolio

How Family Offices get Involved

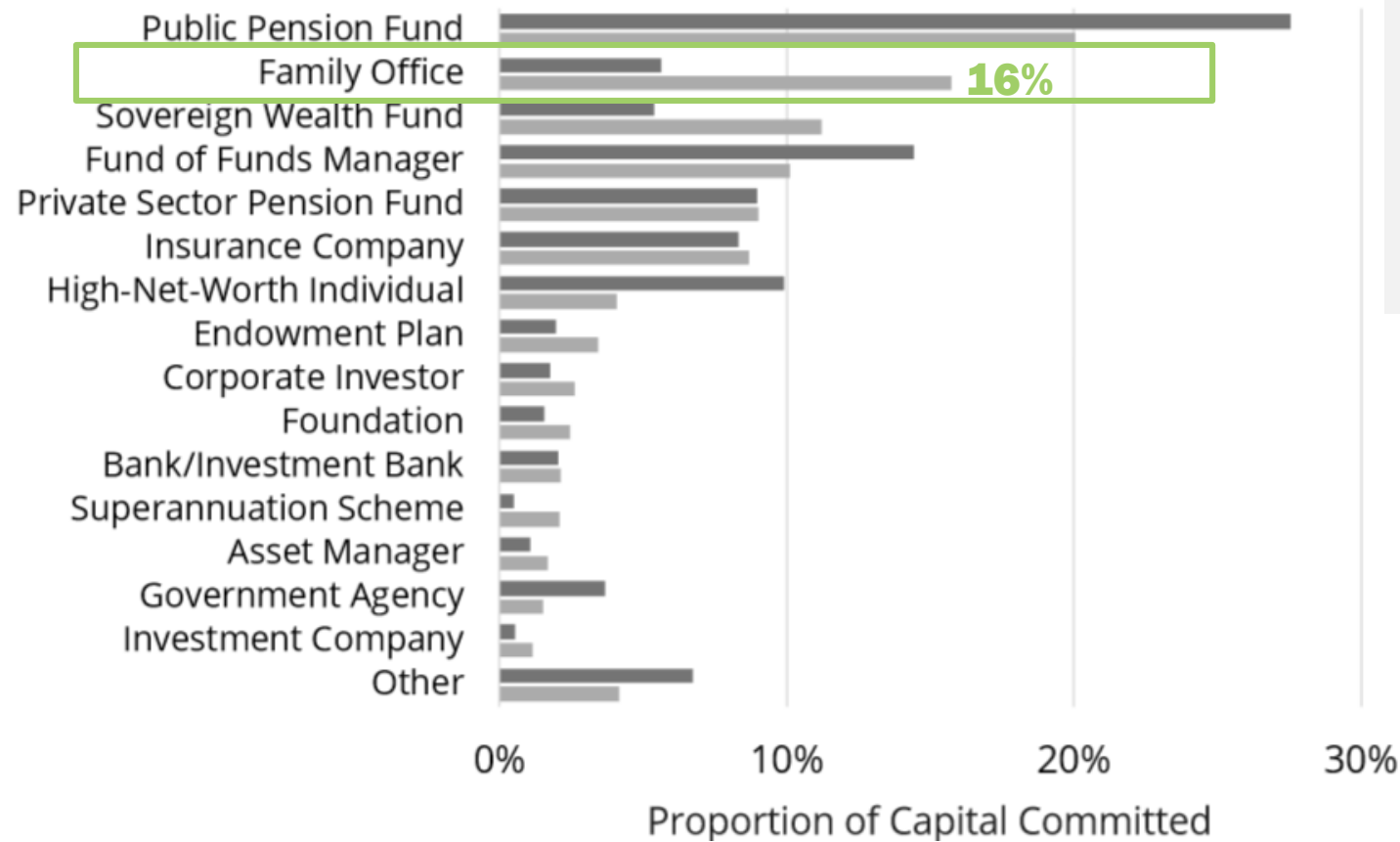
1. Start with FoFs
2. Allocate to some local PE & VC funds
3. Request segregated accounts
4. ... and Co-Investments with the GP
5. Direct - minority investments
6. Direct – control deals

.... from
passive to
Active
investors



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

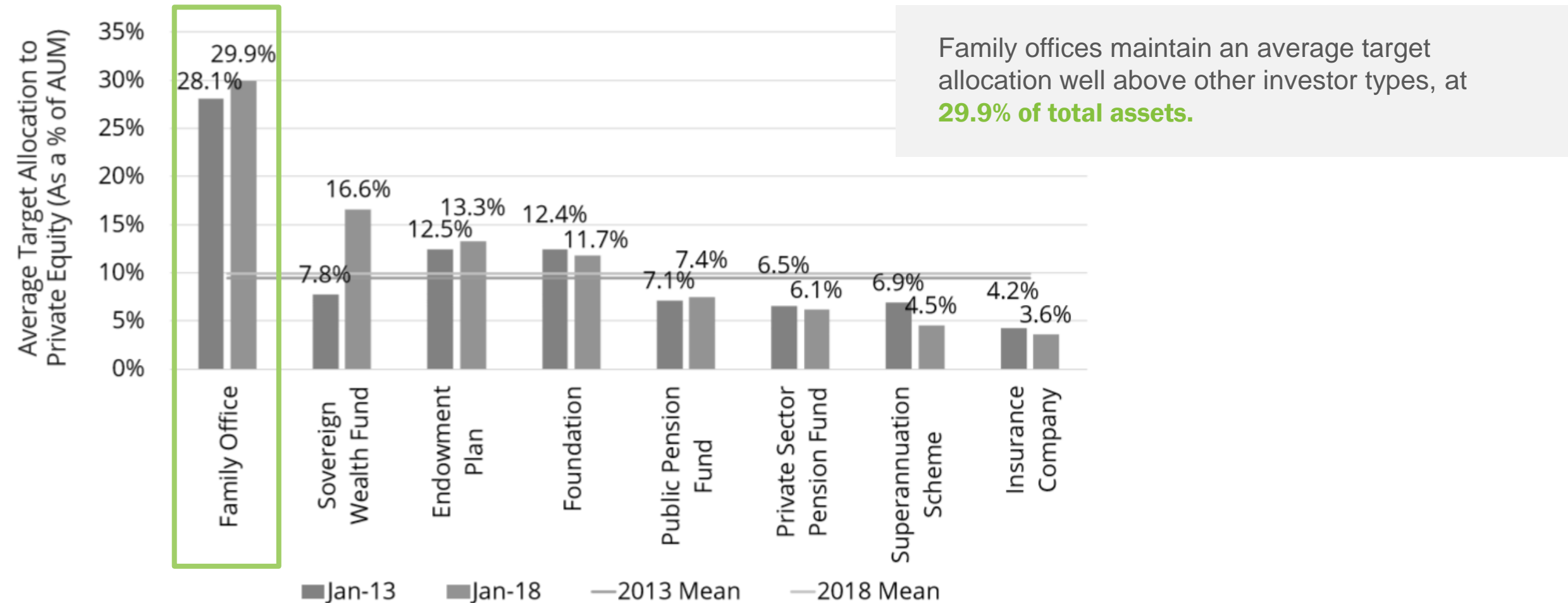
Family Offices – An Important Source of Capital for Fund Managers



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

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

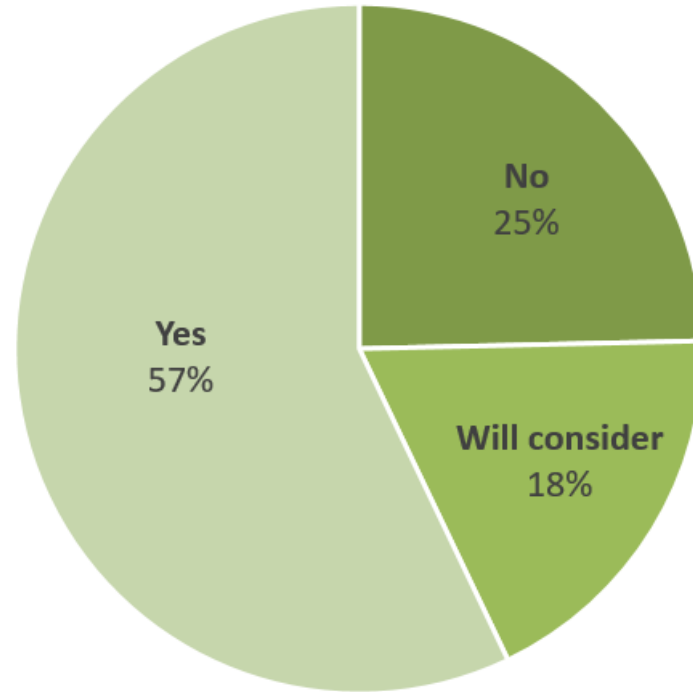


Family Offices are Keen to CO-INVEST

Top reasons for co-investing:

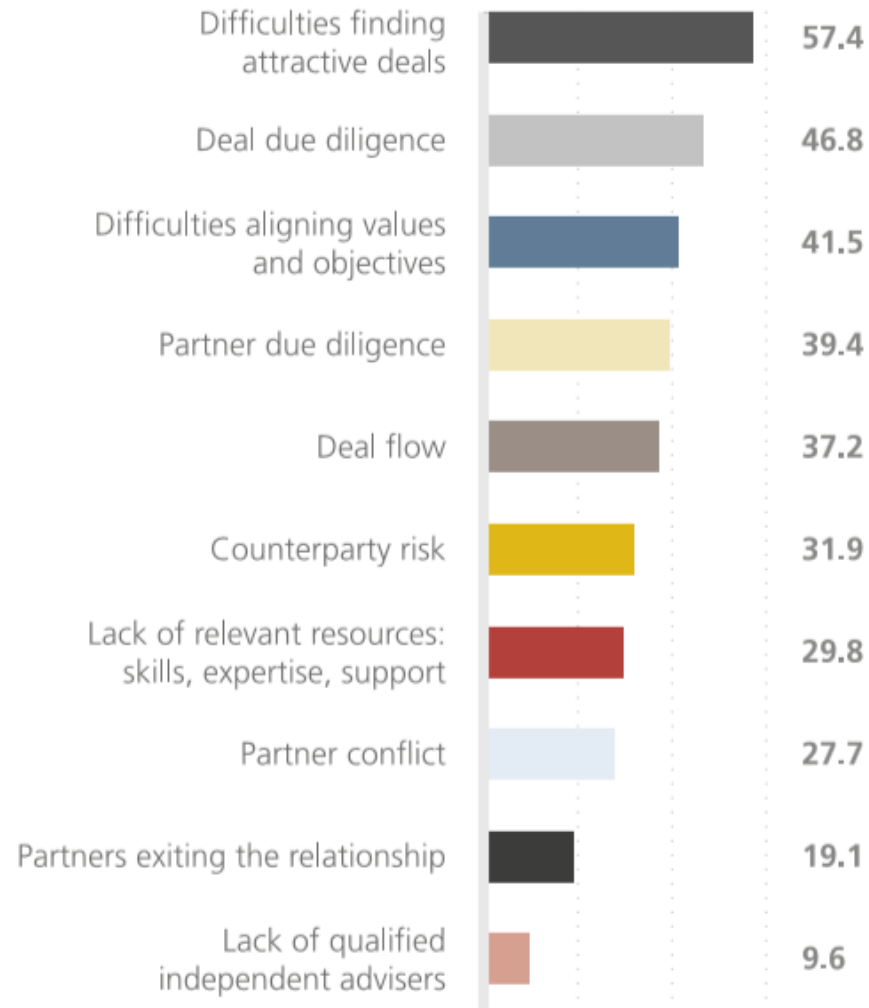
1. Opportunity to invest directly
2. Access to deals
3. Opportunity to collaborate with like-minded investors
4. Potential for higher returns
5. Cost advantage

.... and a
chance to
learn from the
Best



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.

But Easier Said Than Done ...



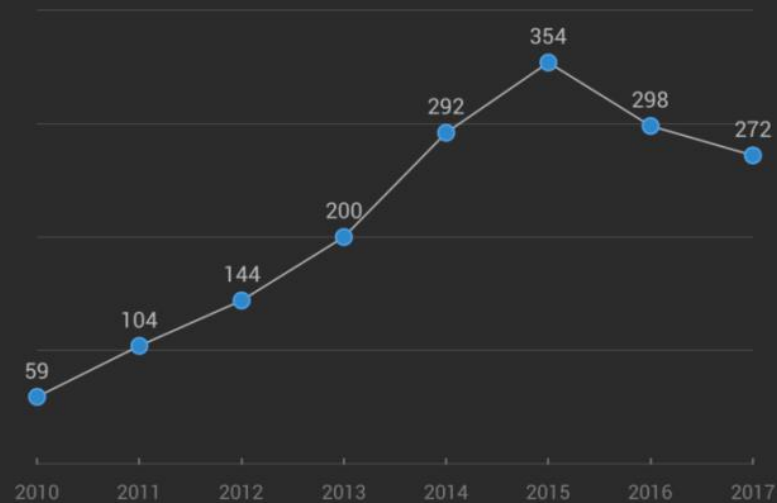
6 in 10 of all participating respondents (57.4%) in UBS/Campden survey pointed to **hardships that relate to sourcing attractive deals** as the key challenge associated with co-investing.

Going Direct – in Venture

“Family offices’ direct investment into startups picked up the pace”

Count Of Venture Deals By Family Investment Offices, Worldwide

2010-2017, based on direct startup investments made by investors categorized as a “family investment office” in Crunchbase data.

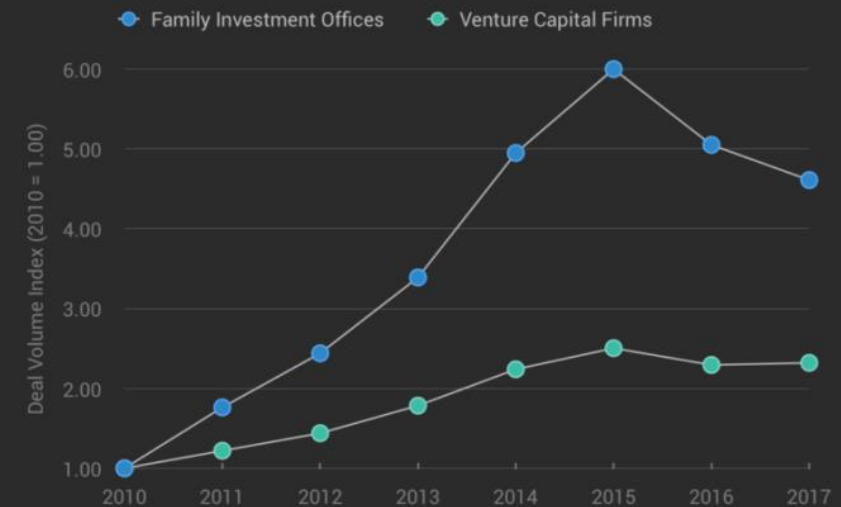


crunchbase news

“Family office venture deal volume growth outpaced VC”

Family Offices vs. VC Firms: Growth In Deal Volume, Worldwide

2010-2017, based on reported venture rounds by investors categorized as “family investment offices” and “venture capital” firms in Crunchbase data.



crunchbase news

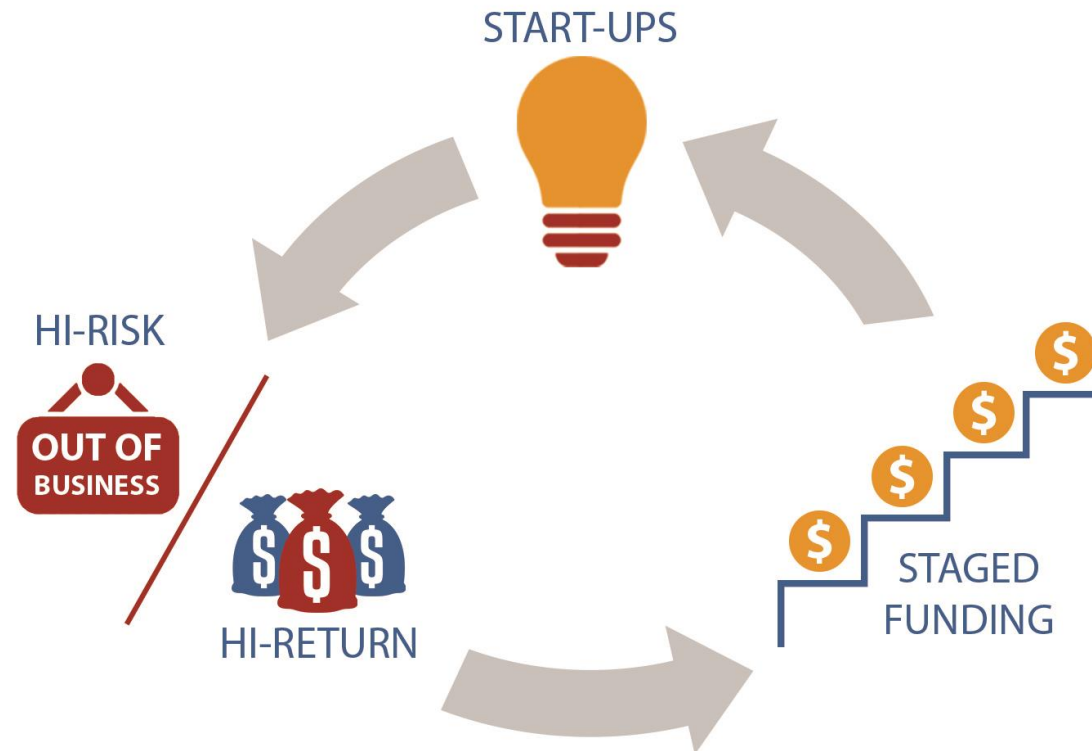


**What can go
Wrong?**

**Reality & Risks of early-
stage Venture Investing**

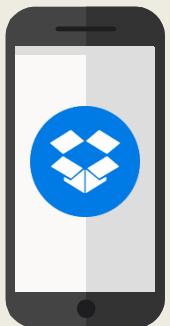
What are venture capital funds (VCs)?

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



IPO

April 2018



Dropbox
\$10.4bn



Wework
\$20bn

wework

Airbnb
\$31bn



Palantir
\$20.3bn
 **Palantir**

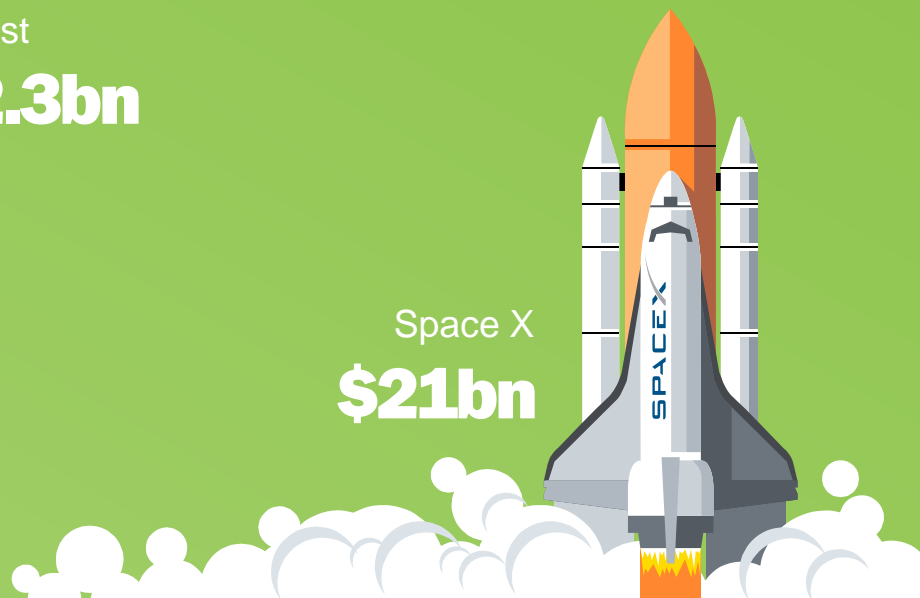
Pinterest
\$12.3bn



lyft Lyft
\$11.5bn



Space X
\$21bn



Uber
\$69bn



Asian Start-ups - VC Funded



Didi Chuxing, China
Industry: Mobile Apps, Transportation
Last Valuation: \$52bn
Total Funding \$19.7bn, 14 Rounds



Ant Financial, China
Industry: E-Commerce, FinTech, Payments
Last Valuation: \$55.5bn
Total Funding \$4.5bn, 4 Rounds



Flipkart, India
Industry: E-Commerce, Retail
Last Valuation: \$10.2bn
Total Funding \$7.3bn, 18 Rounds



Toutiao, China
Industry: Analytics, Big Data, Data Mining
Last Valuation: \$18bn
Total Funding \$3.1bn, 5 Rounds



Meituan-Dianping, China
Industry: Advertising, Guides, Information Services, Local Business
Last Valuation: \$26bn
Total Funding \$8.3bn, 9 Rounds



Grab, Singapore
Industry: Mobile, Ride Sharing, Transportation
Last Valuation: \$4bn
Total Funding \$4.1bn, 11 Rounds



Xiaomi, China
Industry: Consumer Electronics, Internet, Mobile
Last Valuation: \$43.9bn
Total Funding \$3.4bn, 9 Rounds



Ele.me, China
Industry: E-Commerce, Food Delivery
Last Valuation: \$5bn
Total Funding \$3.3bn, 8 Rounds



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

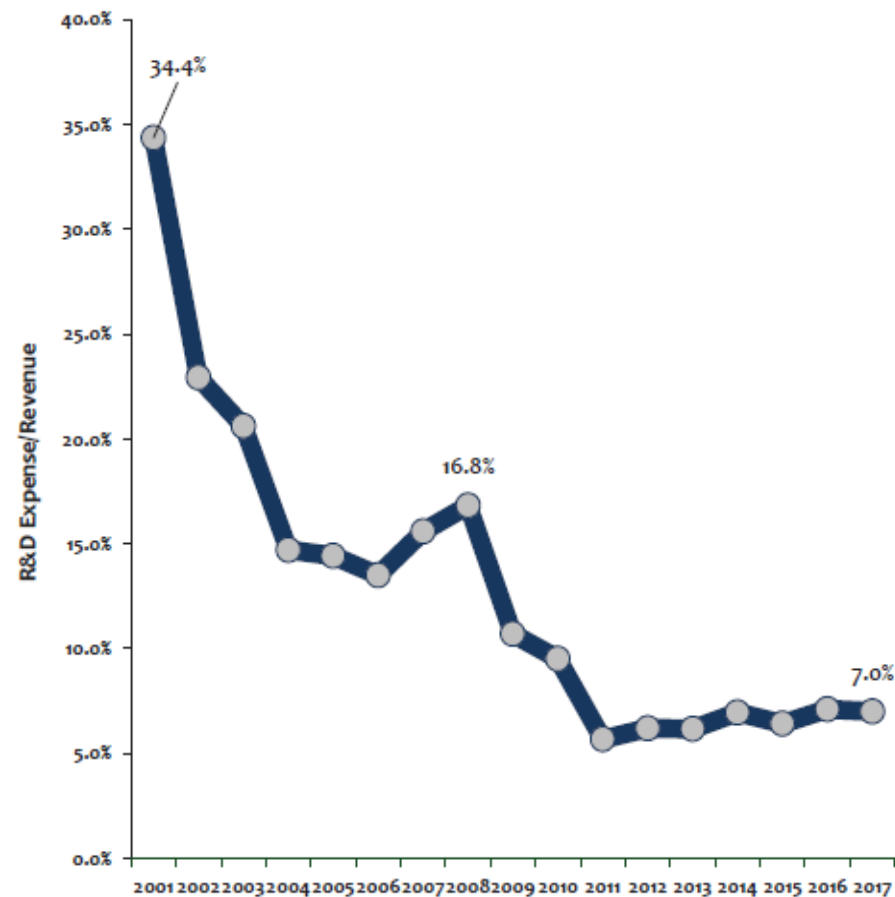
Majority of companies **fail**



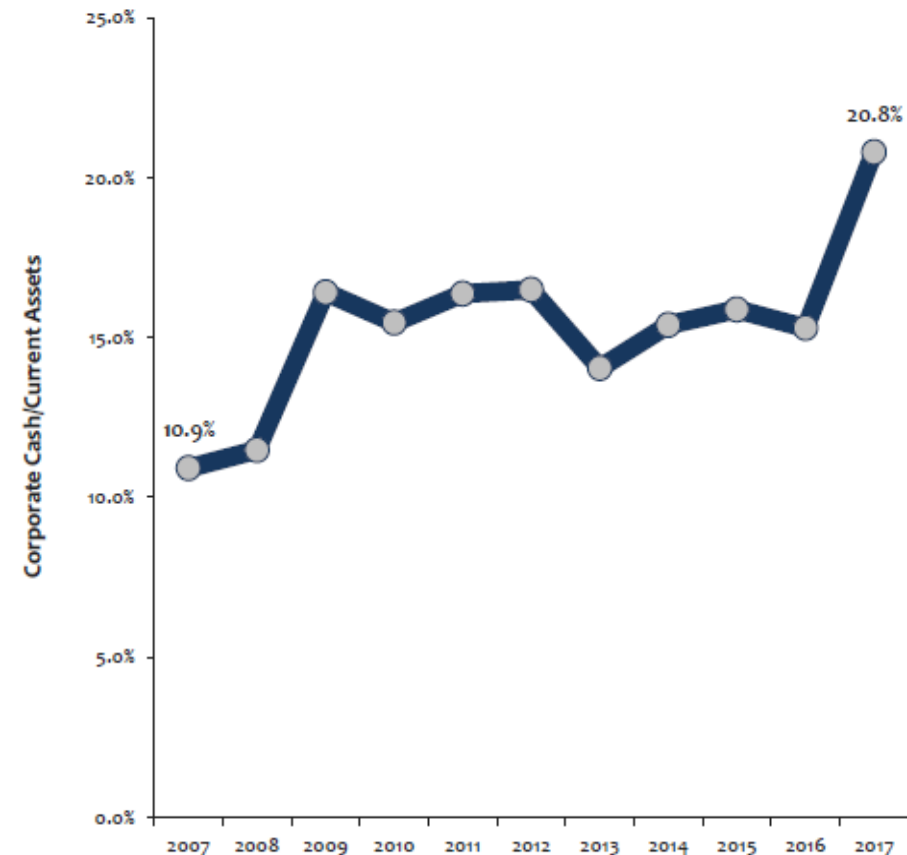
Changing at Speed

Trends in the Global VC Ecosystem

R&D Expense as a Percent of Revenue



Corporate Cash as a Percent of Current Assets



VC-backed Companies – a provider of “outsourced R&D”?

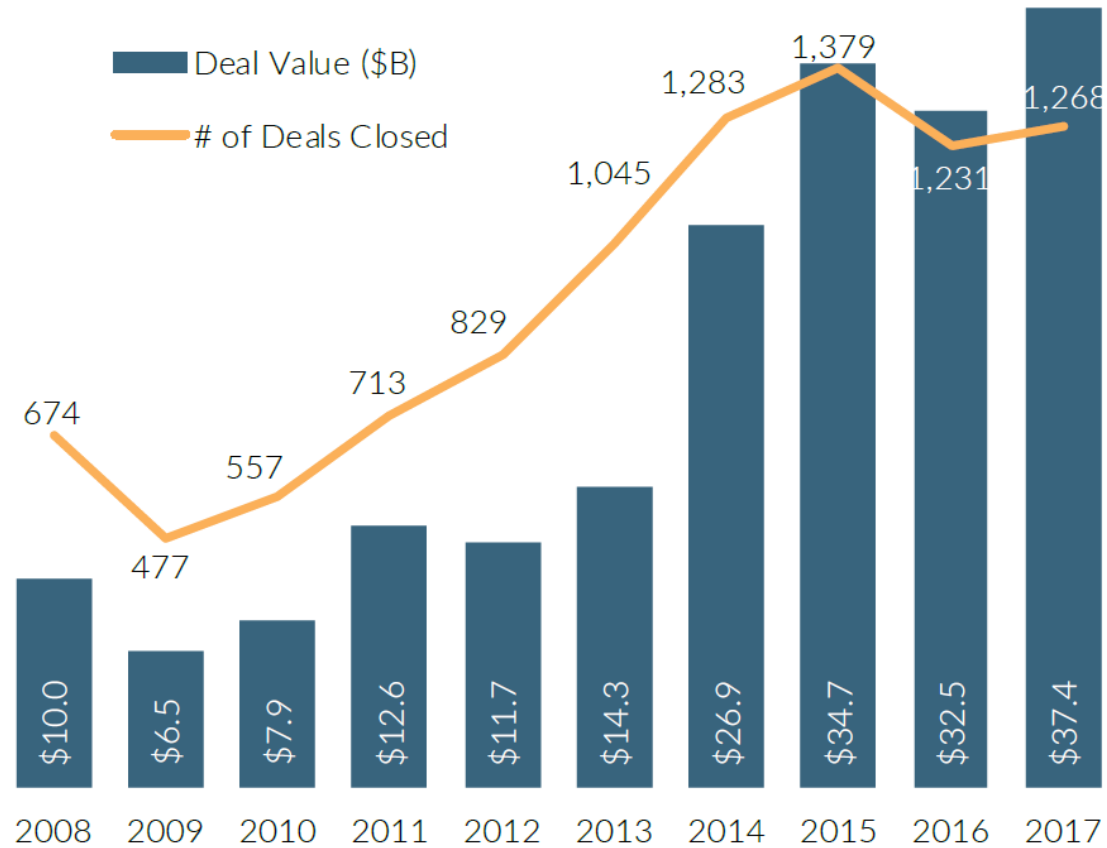
Increasing relevance of VC to corporate acquirers

NON-Tech Corporate Buyers of VC-backed Companies



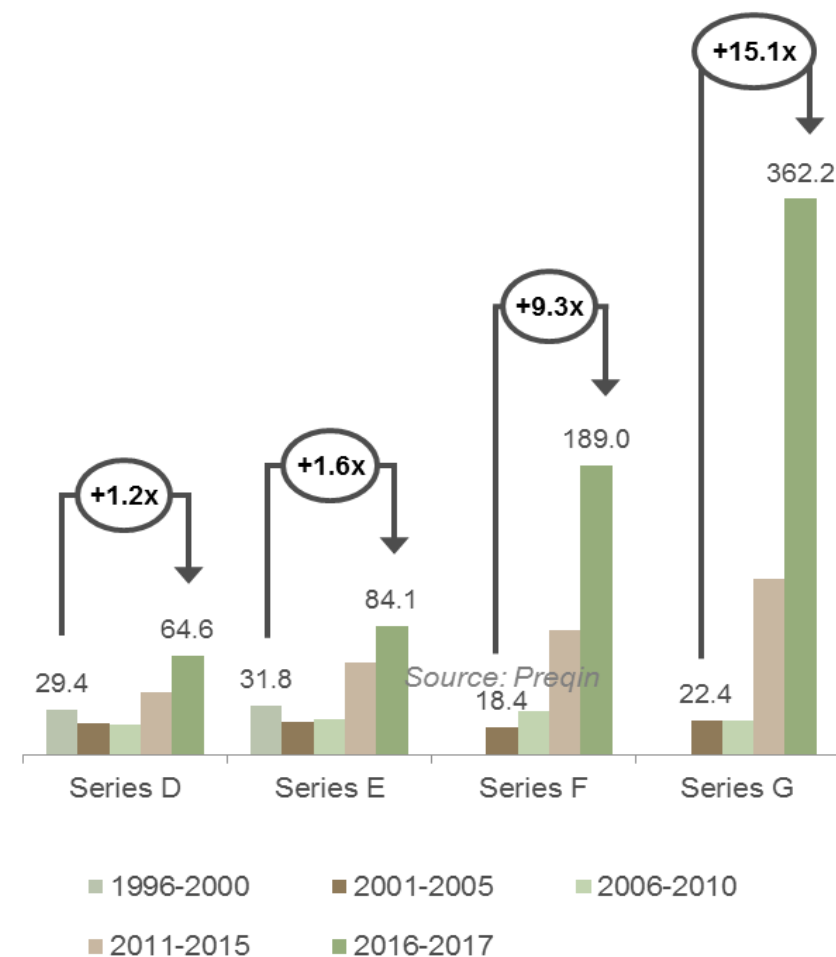
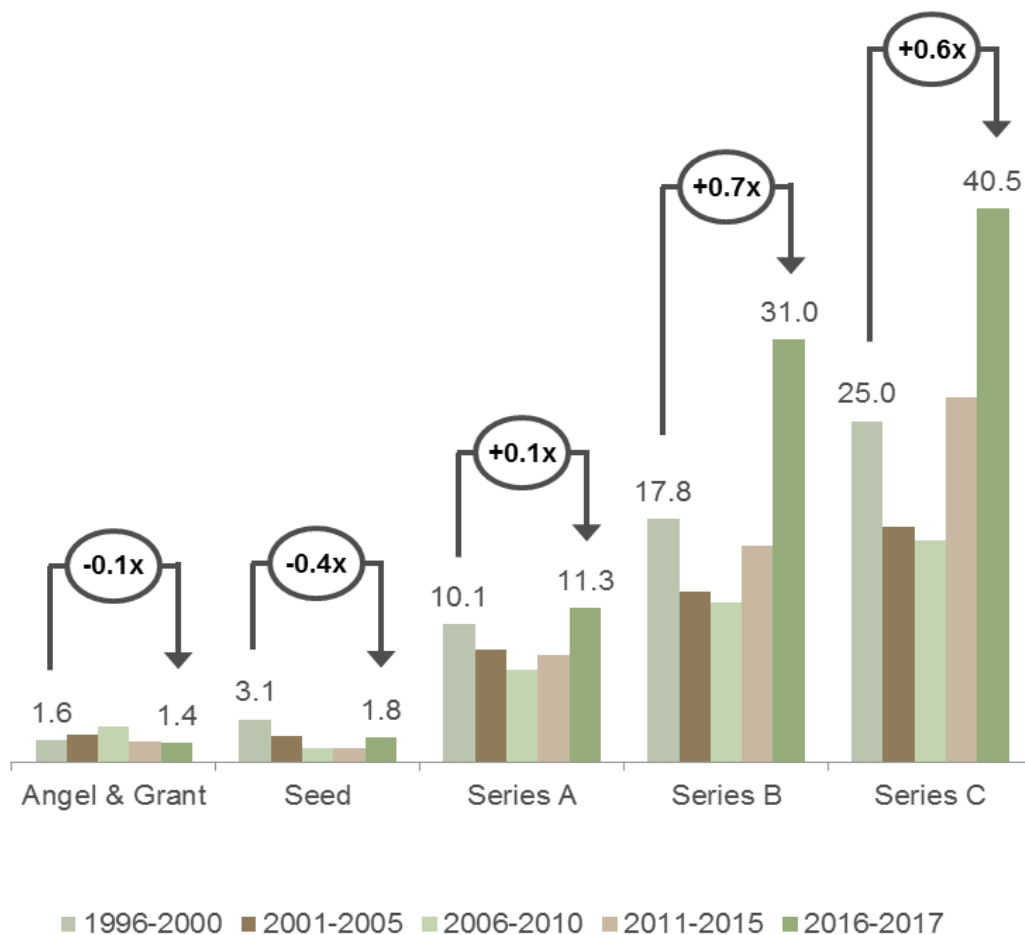
High levels of activity among corporate VCs (CVCs)

CVCs
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

Top Ten Largest VC Rounds In July 2018

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

crunchbase news

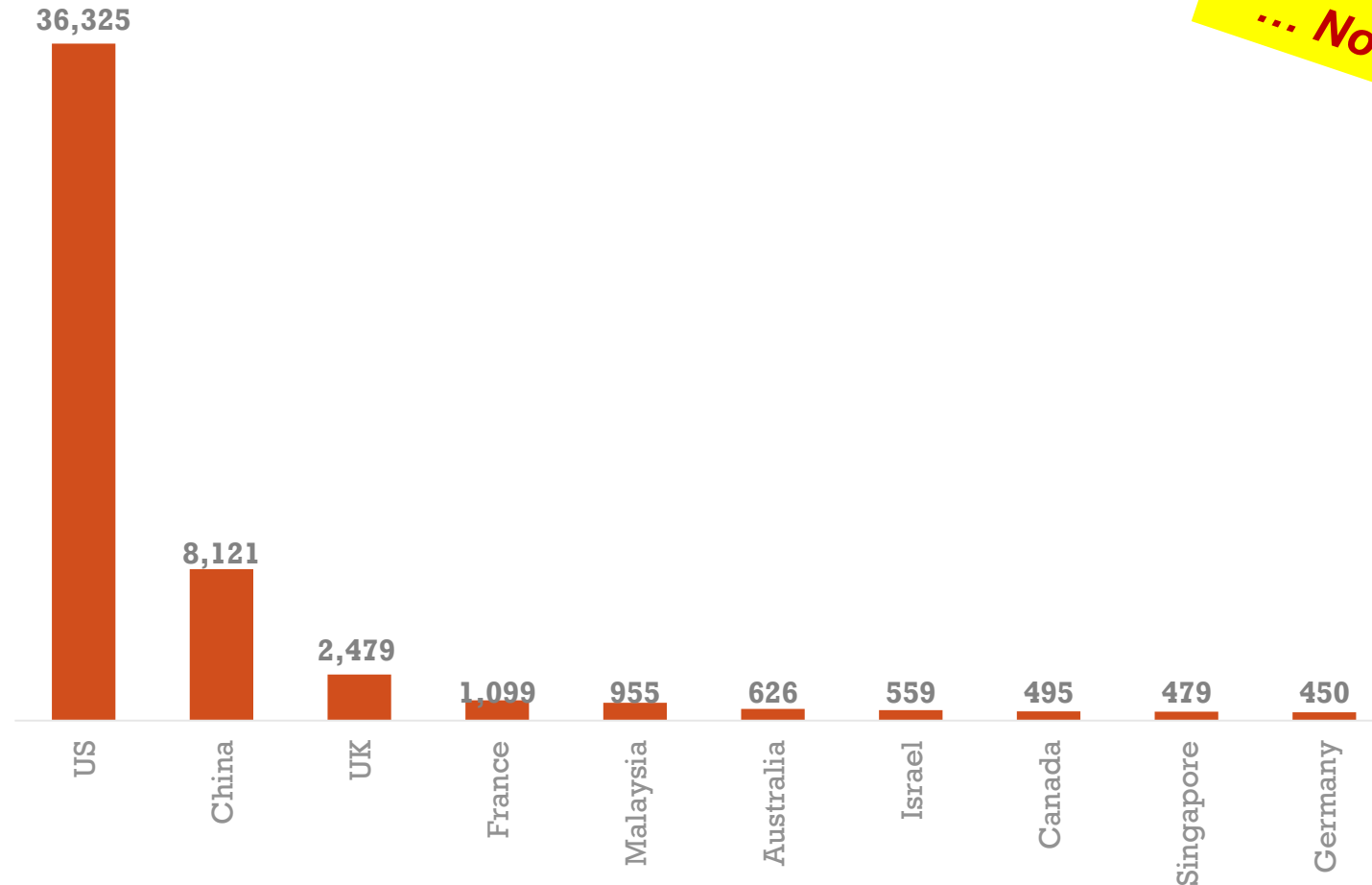
Billion dollar rounds – unheard of in early rounds till 2014

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).



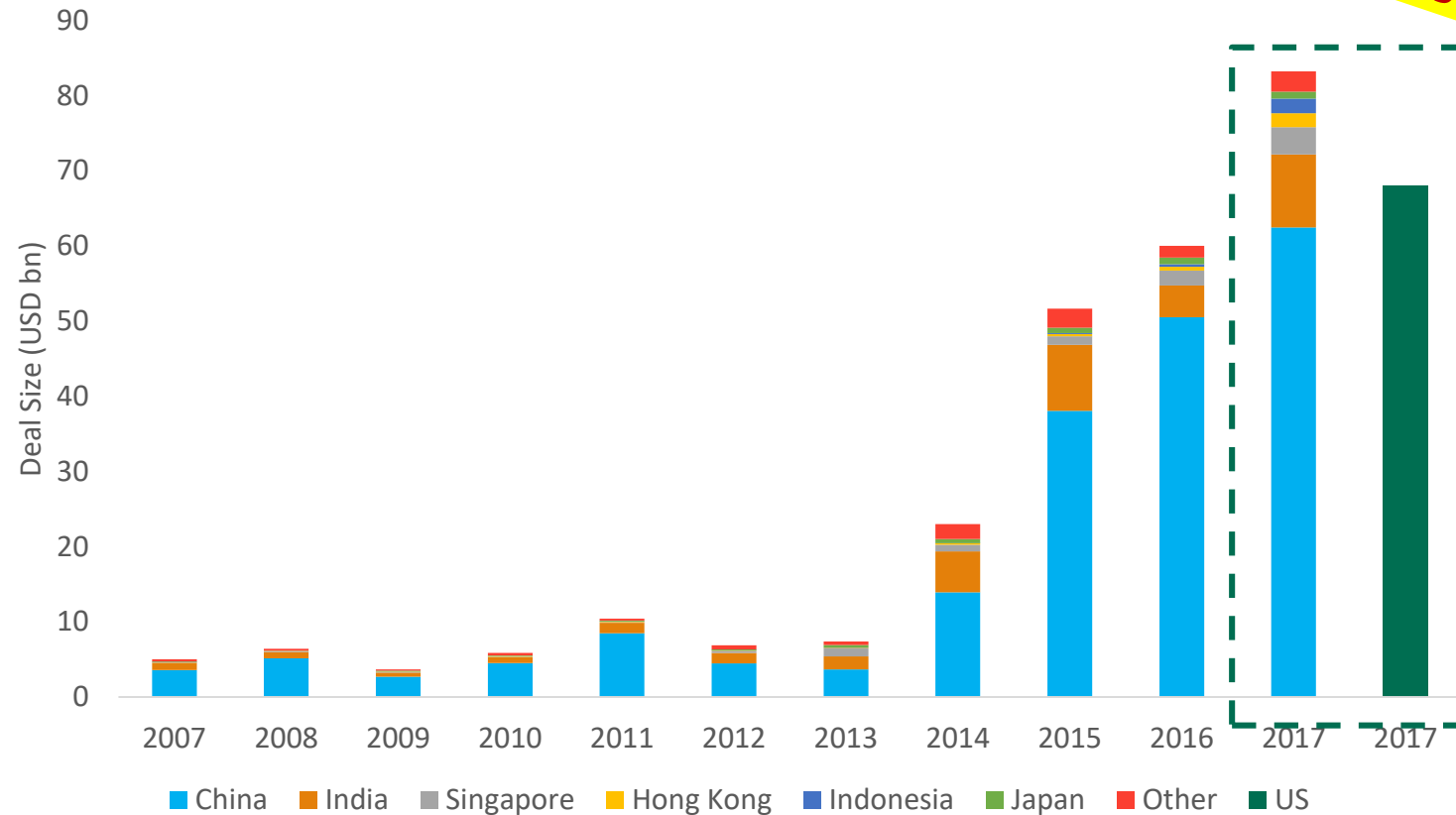
**The Valley...
... and the rest.
... Nothing has changed?**

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

Venture capital ecosystems – Asia

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.

Asia, especially China, is rising fast.



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



THE YEAR OF THE RED UNICORNS: A PREQIN AND INSEAD STUDY

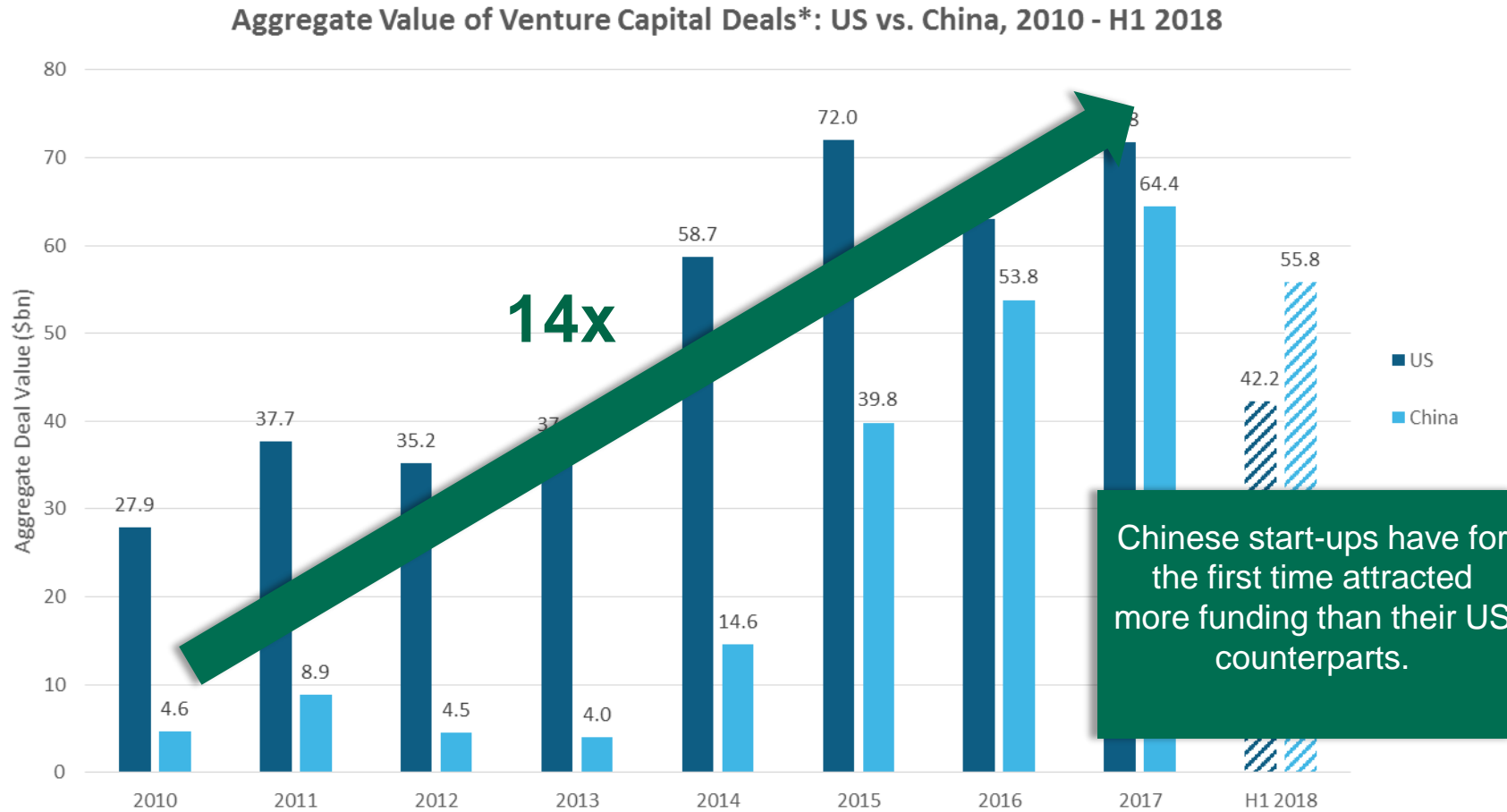
November 2018



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?

US vs CHINA: Aggregate Value of VC Deals



*Excludes Add-on, Grant, Growth Capital/Expansion, Merger, PIPE, Pre-IPO, Secondary Stock Purchase and Venture Debt.

10 Largest Unicorns Globally

			Post-Money Valuation (\$bn)	Location
1		Ant Financial Services Group	150.0	China
2		Uber Technologies, Inc.	5 of the top 10 current mega-unicorns originate from China, with the remaining 5 from the US	US
3		Didi Chuxing		China
4		Airbnb		US
5		Tongcheng Network Technology Co., Ltd.	30.0	China
6		WeWork Companies Inc.	21.1	US
7		Palantir Technologies Inc.	20.4	US
8		Toutiao	20.0	China
9		Shanghai Lujiazui International Financial Asset Exchange Co.,Ltd	18.5	China
10		Pinterest, Inc.	12.3	US

5 Largest IPOs of Unicorns Globally

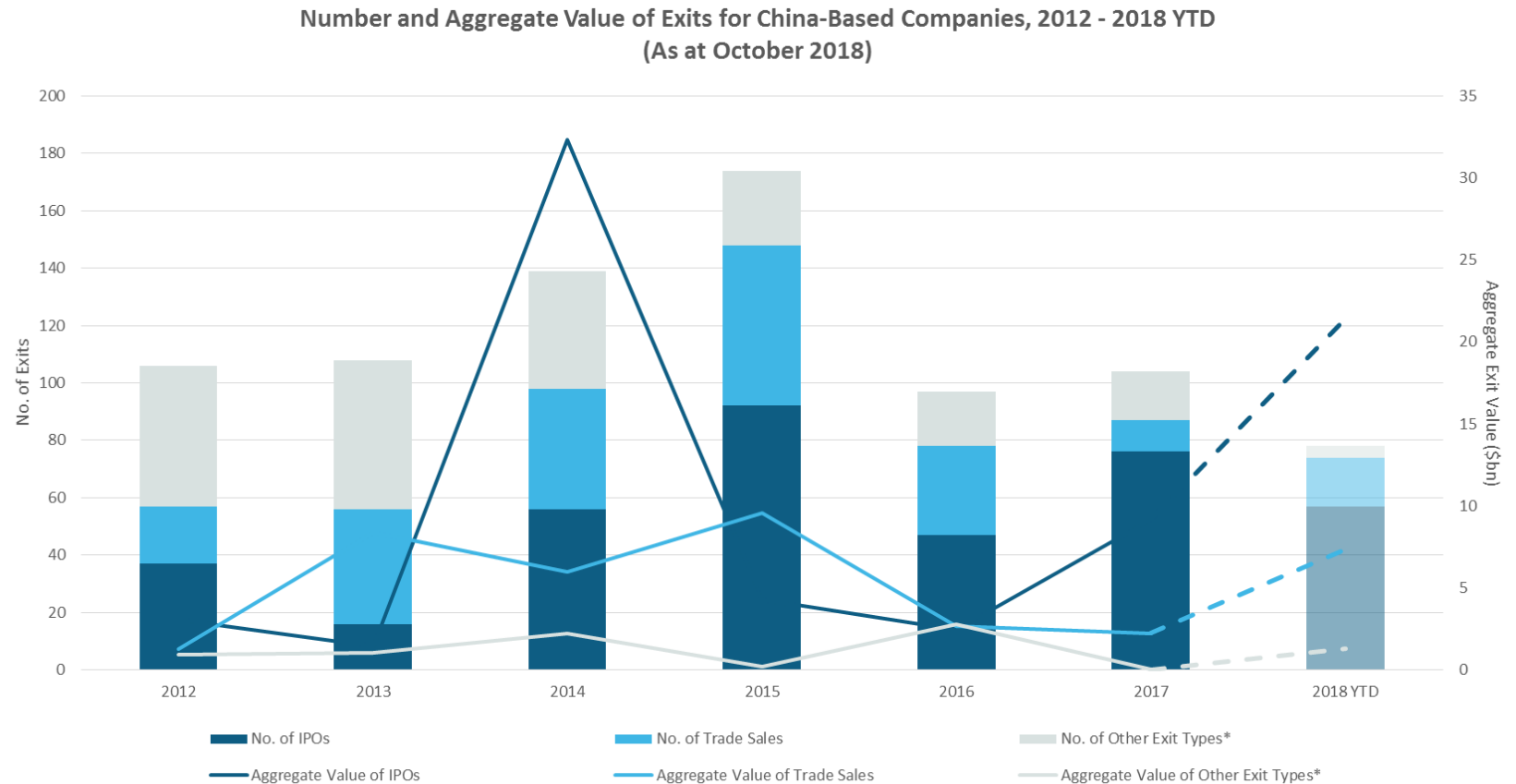
		IPO Valuation (\$bn)	Headquarters	IPO Location
1	Alibaba Group	231.0	China	US
2	Facebook, Inc.	104.0	US	US
3	Meituan-Dianping	55.0	China	Hong Kong
4	Xiaomi Inc.	53.9	China	Hong Kong
5	Snap Inc.	33.0	US	US



Three of the top five IPOs of unicorns (in terms of company valuation at IPO) were Chinese companies.

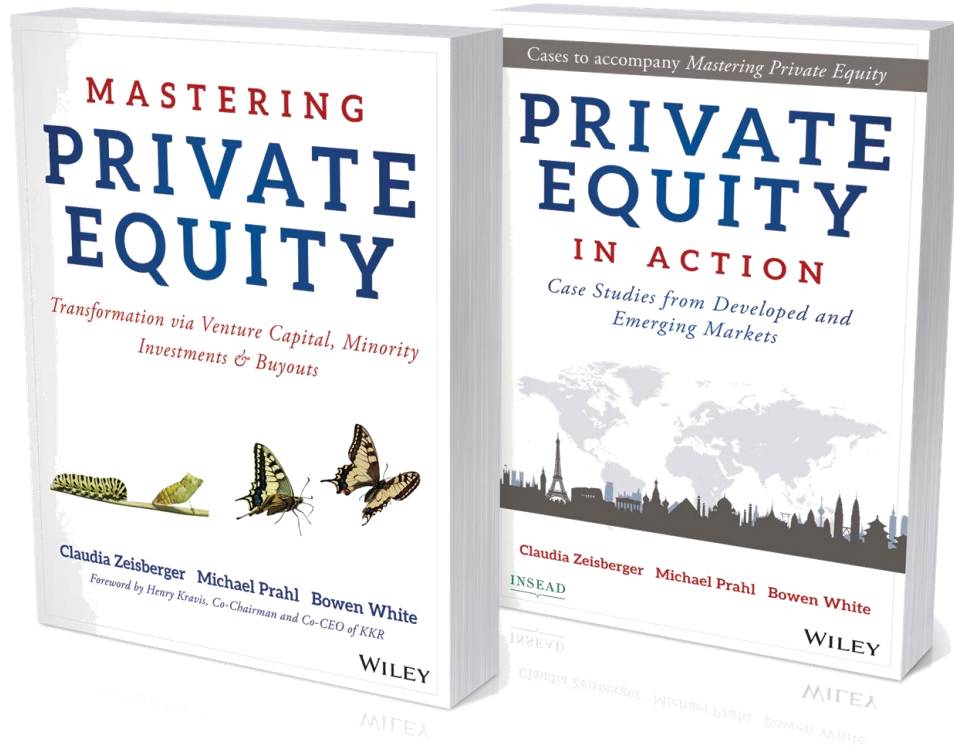
EXITS

- 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**



Source: Preqin

*'Other' includes Sale to GP, Merger, Private Placement, Restructuring, Sale to Management and Unspecified Exit. It excludes Write-off.



<http://masteringprivateequity.com/>



**... 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!

Professor Claudia Zeisberger

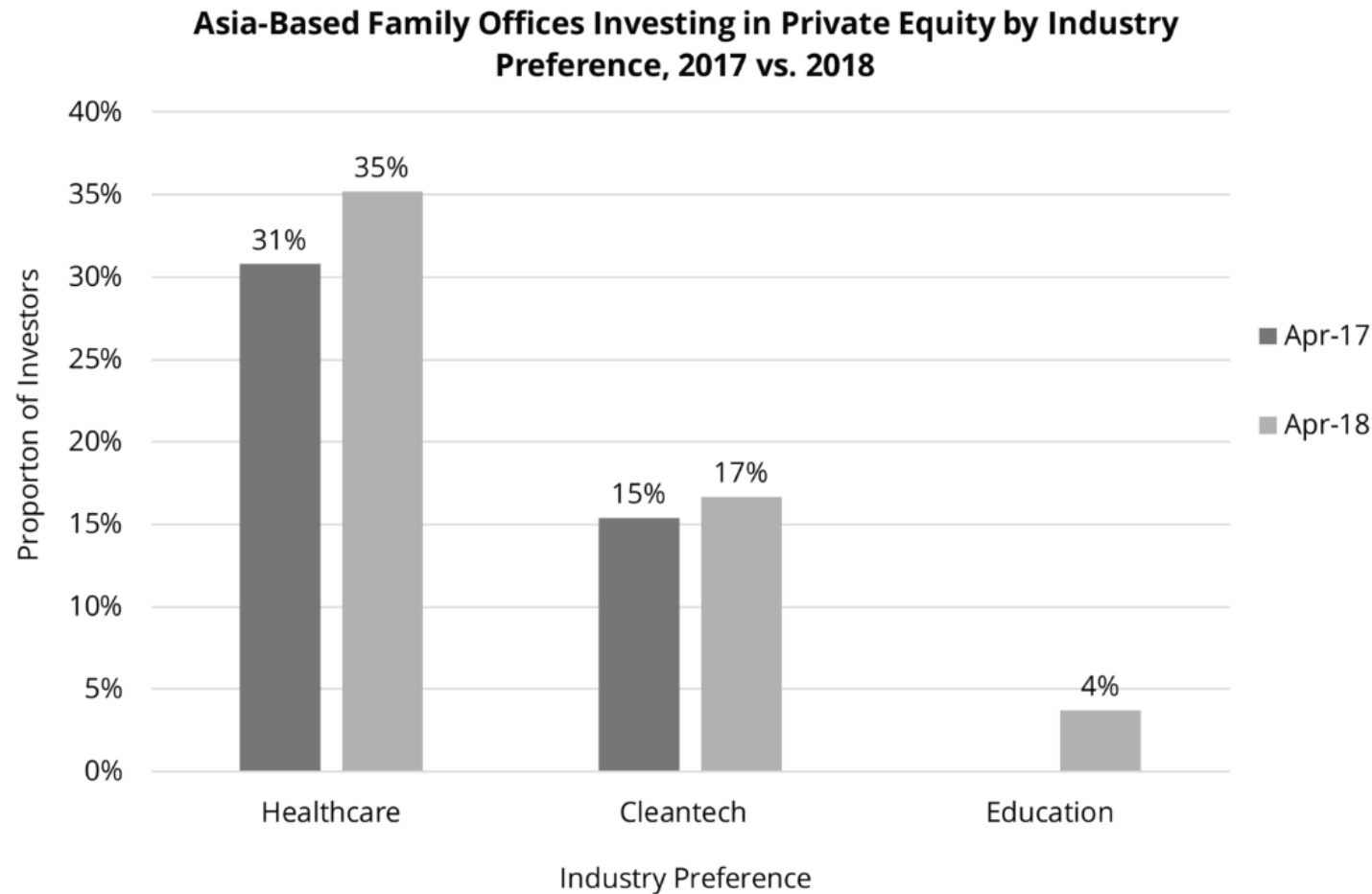
Senior Affiliate Professor of Decision Sciences and Entrepreneurship & Family Enterprise
Academic Director; Global Private Equity Initiative (GPEI)

INSEAD

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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.