

Coller Capital

Global Private Equity Barometer

· · · AUSTRALIA SNAPSHOT

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN AUSTRALIAN PRIVATE EQUITY

Coller Capital's *Global Private Equity Barometer*

Coller Capital's *Global Private Equity Barometer* is a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific.

Australia snapshot

This special edition of the *Global Private Equity Barometer* on the Australian private equity market captured the views of 35 private equity investors from around the world. The *Barometer's* findings are representative of the LP population investing in Australia by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

Contents

Key topics in this edition of the *Barometer* include:

- LPs' returns and appetite for PE in Australia
- Prospects for PE dealflow
- Attractive sectors for GP investment
- Strengths of the Australian PE market
- Risks facing Australian PE
- Obstacles facing Australian venture capital
- Risk/return profiles of key Asia-Pacific countries

LPs have done well from Australian buyouts

Half of investors have achieved net returns of 16%+ from their investments in Australian buyouts.

Australian venture – like venture in Japan & Europe – has not performed as strongly as buyouts. Just one in five LPs report returns of 16%+ from Australian venture investments.

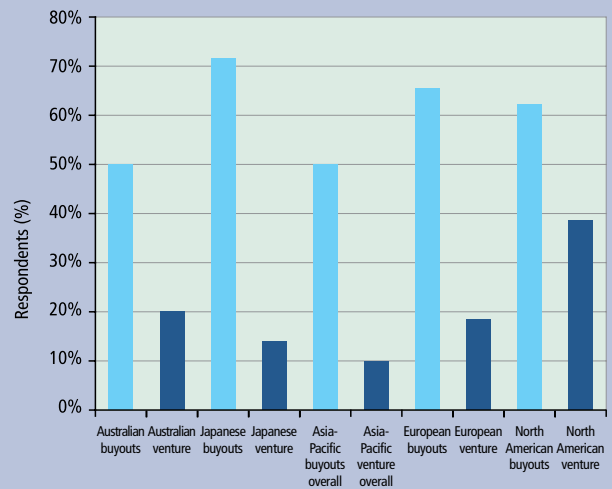
The apparently less robust performance of Australian venture has not harmed LPs' overall returns because the weight of their exposure to Australian private equity is heavily biased towards buyouts. Overseas investors in Australian PE tend to have negligible allocations to venture, and even for Australian investors venture is a relatively small part of their overall commitments.

LPs expect strong Australian PE returns in the medium term

Three quarters of investors (77%) expect Australian buyouts to yield net returns of 16%+ over the next 3-5 years. This compares favourably with expected returns from buyouts in other areas of the world.

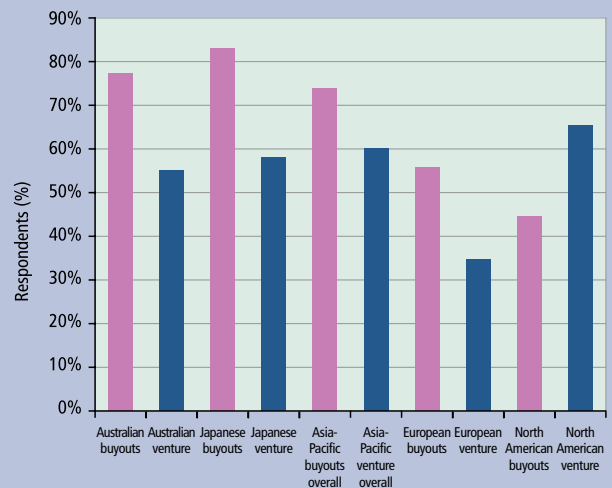
LPs also have high expectations for Australian venture – over half (55%) expect returns of 16%+.

LPs achieving net returns of 16%+ from their portfolios since they began investing



(Figure 1)

LPs expecting net returns of 16%+ from their portfolios over the next 3-5 years



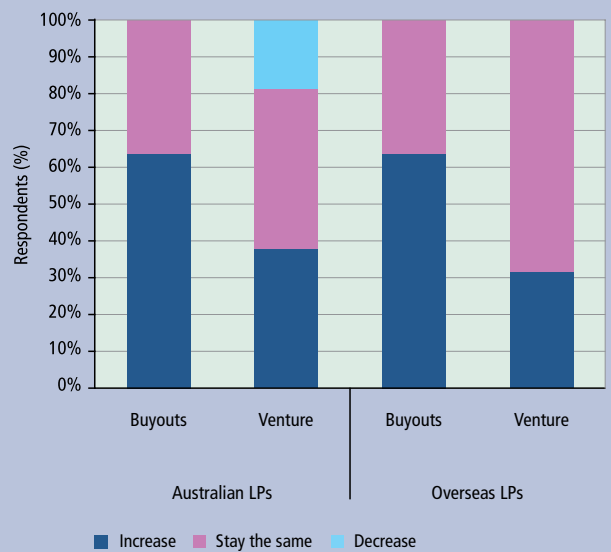
(Figure 2)

Investor appetite for Australian buyouts is increasing

Nearly two thirds of investors in Australian PE – both domestic and overseas investors – plan to increase their allocations to Australian buyouts over the next 3 years.

Approximately one third of investors – both domestic and overseas LPs – expect to increase their allocation to Australian venture capital, but this will be slightly offset by a reduction in allocation by one in five domestic investors.

LPs' planned allocations to private equity in Australia over the next 3 years



(Figure 3)

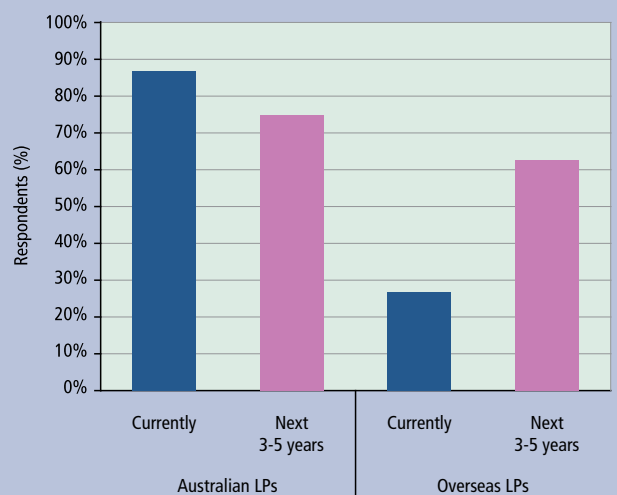
Overseas investors to increase commitments to domestic GPs

Only a quarter of overseas investors (27%) have thus far chosen to invest in Australian private equity via domestic GPs – the majority (73%) choosing to invest via global or pan-Asian funds.

Domestic GPs have unsurprisingly been the route of choice for the majority of Australian investors (88%).

Over the next 3-5 years, however, overseas investors intend to make more commitments to Australian GPs.

Investors with commitments to Australian GPs

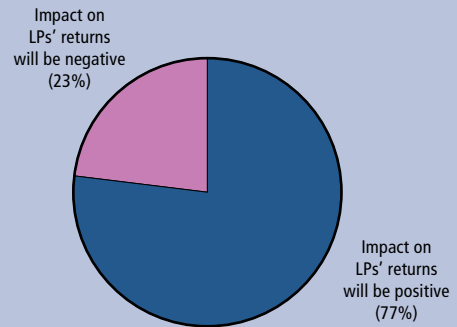


(Figure 4)

LPs believe pressure on GPs to provide low-fee funds will benefit returns

Three quarters of investors (77%) think that the pressure on GPs to provide low-fee funds in Australia will have a positive impact on private equity returns in the long term.

How the pressure on GPs to provide low-fee funds will impact LPs' long-term returns

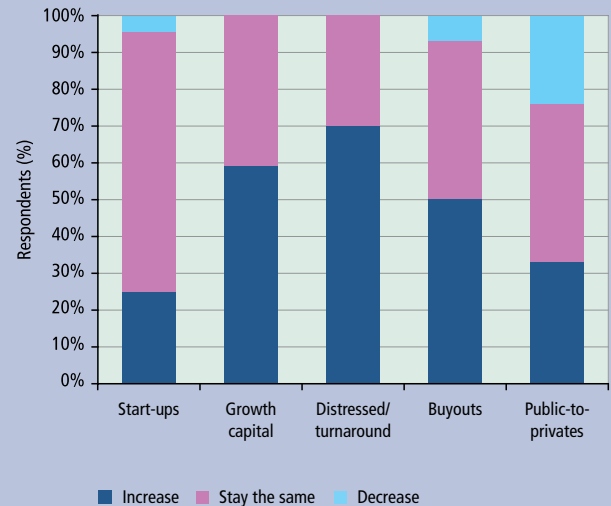


(Figure 5)

Australia's PE dealflow expected to change complexion

Distressed/turnaround situations are expected to deliver a greater proportion of Australian PE dealflow over the next 3 years, with growth capital opportunities and buyouts also expected to become more significant.

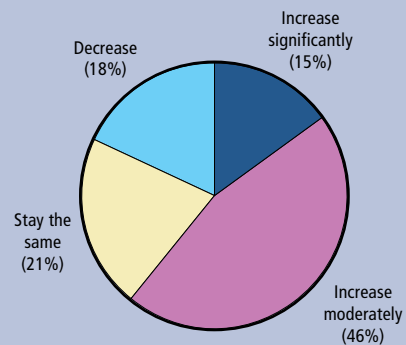
Sources of PE dealflow in Australia over the next 3 years – LP views



(Figure 6)

61% of investors also expect PE's share of Australian M&A to increase over the next 3 years; only one in five expect it to decrease.

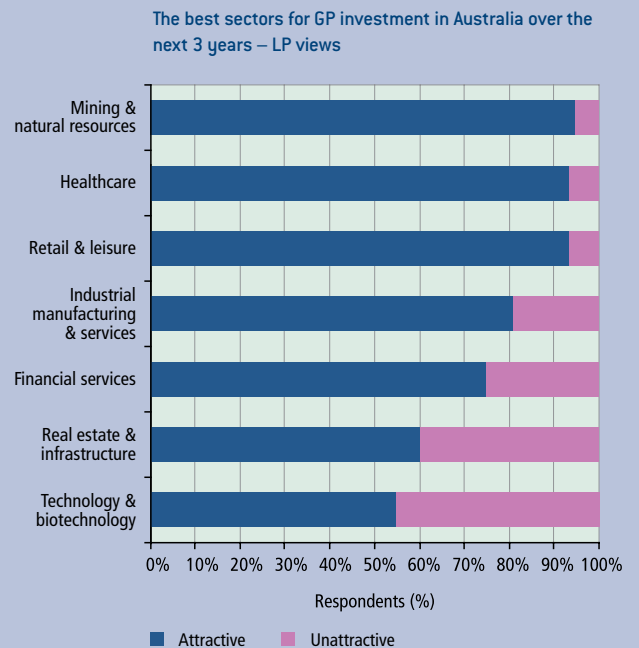
Likely changes in PE's share of Australian M&A over the next 3 years – LP views



(Figure 7)

LPs' views on the three best sectors for GP investment

Almost all LPs (over 90%) expect mining & natural resources, healthcare, and retail & leisure to be attractive sectors for GP investment in Australia over the next 3 years.



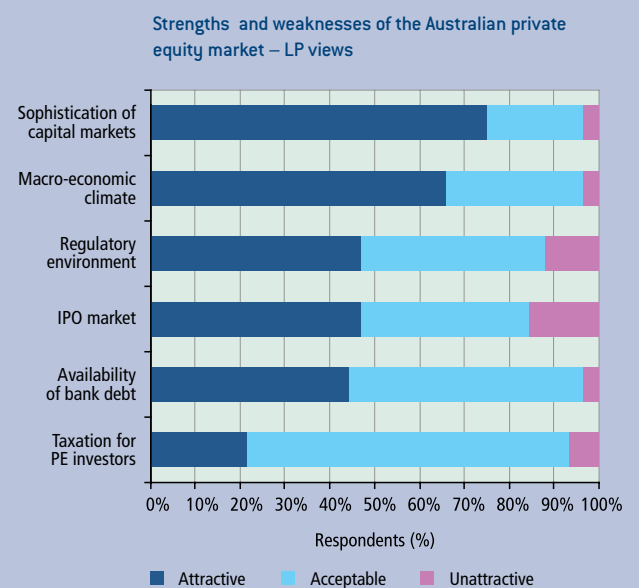
(Figure 8)

Conditions for PE are good in Australia

The conditions for private equity investment in Australia are regarded very positively by investors.

The sophistication of Australia's capital markets and the country's macro-economic climate are seen as particularly strong plus points.

The majority of LPs (94%) think taxation is now at an acceptable or attractive level for the Australian private equity industry.



(Figure 9)

Competition and scarcity of PE talent are greatest risks

Private equity is a highly skill-based investment discipline, and LPs believe scarcity of PE talent is the single greatest risk facing the Australian private equity industry over the next few years (73% of investors).

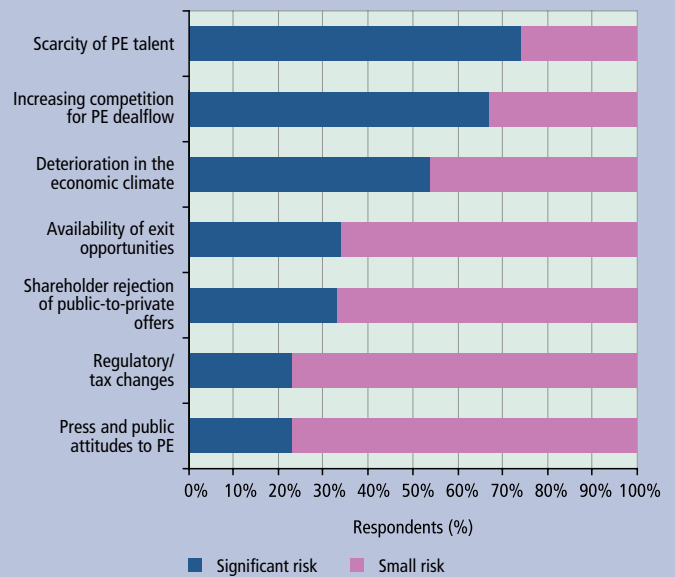
Two thirds of LPs (67%) are concerned that increasing competition for dealflow will negatively impact returns.

Less than a quarter of LPs (23%) think the attitudes of the media or the general public are a significant risk to private equity in Australia.

The impact of leverage levels on buyout returns

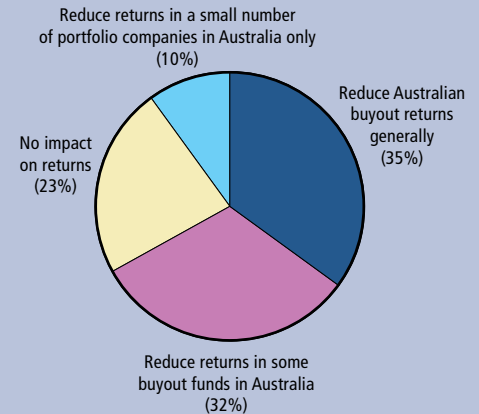
A third of LPs (35%) believe that the leverage multiples being applied to buyouts in Australia will reduce Australian buyout returns across the board, while another third (32%) believe the effect will be restricted to some buyout funds only.

Risks facing Australian PE over the next few years – LP views



(Figure 10)

The likely impact on LPs' returns of current leverage multiples in Australian buyouts – LP views



(Figure 11)

Skills and track records are in short supply in Australian venture capital

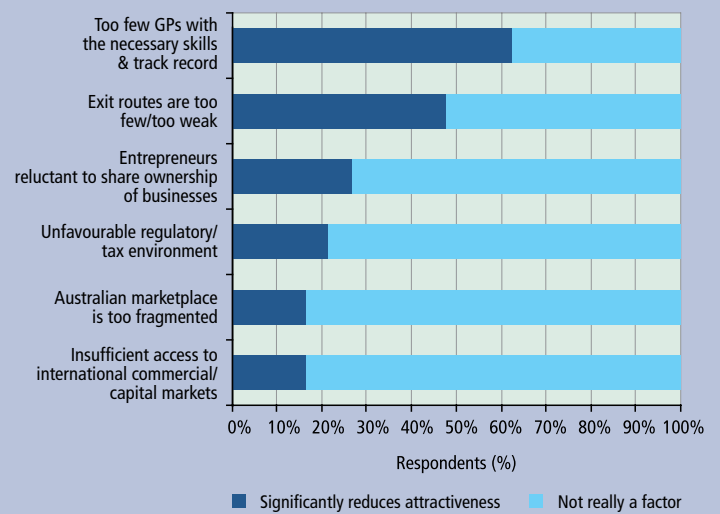
Two thirds of investors (62%) cite a lack of GPs with the necessary skills and track record as a key factor reducing the attractiveness of venture capital in Australia.

Another limiting factor is seen to be the relative under-development of exit routes for Australian venture capital – 48% of LPs think exit routes are too few or too weak.

Overseas LPs believe it is too easy for 'weak' GPs to raise funds in Australia

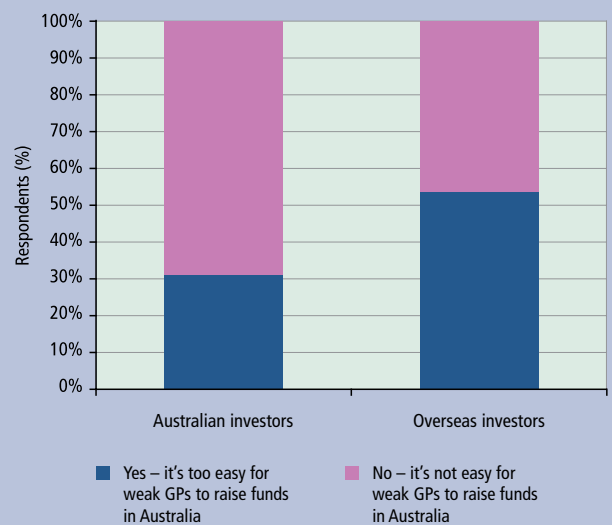
Over half of overseas LPs (54%) say it is too easy for weak GPs to raise funds in Australia. One third of Australian LPs (31%) are of the same opinion.

Factors impacting the attractiveness of Australian venture capital – LP views



(Figure 12)

Ease with which weak GPs can raise funds in Australia – LP views



(Figure 13)

Australian LPs' appetite for overseas investment may divert funds from domestic GPs

Almost half of investors (48%) think the increasing appetite of Australian LPs for overseas investment will divert LP commitments away from domestic GPs.

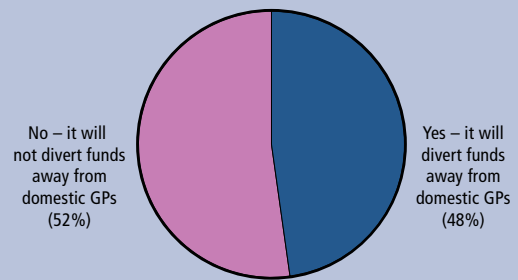
This effect will be counteracted to some extent by the strengthening appetite of overseas investors for Australian PE.

Australia will vie with India, China and Japan for LP money

Australian LPs see Australia as having the best risk/return profile of any Asia-Pacific PE market over the next 3-5 years, followed by Japan and India.

For overseas investors, India has the most favourable risk/return profile followed by Australia and then China.

Impact on domestic GPs of Australian LPs' increasing appetite for overseas investment



(Figure 14)

The 3-5 year risk/return profiles of Asia-Pacific PE markets – Australian investors' views

	Overall ranking
Australia	1
Japan	2
India	3
China	4
Hong Kong	5
Korea	6
Taiwan	7
Singapore	8
Vietnam	9
Malaysia	10
Thailand	11

(Figure 15)

The 3-5 year risk/return profiles of Asia-Pacific PE markets – Overseas investors' views

	Overall ranking
India	1
Australia	2
China	3
Japan	4
Hong Kong	5
Taiwan	6
Thailand	7
Singapore	8
Vietnam	9
Korea	10
Malaysia	11

(Figure 16)

Global Private Equity Barometer – Australia Snapshot

Respondent breakdown

Coller Capital's *Global Private Equity Barometer* researched the plans and opinions of 35 investors with commitments to private equity funds investing in Australia (either through Australia-dedicated funds or through more broadly-focused funds with an allocation to Australia). Based in Asia-Pacific, Europe and North America they form a representative sample of the LP population investing in Australia.

About Coller Capital

Coller Capital, the creator of the *Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

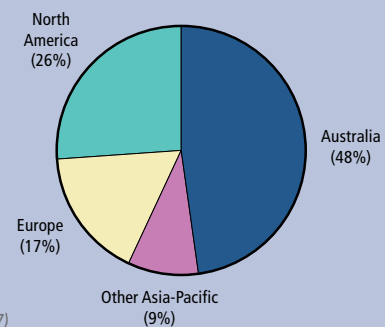
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in August-September 2007 by IE Consulting, a division of Incisive Media, which has been conducting private equity research for 18 years.

Notes:

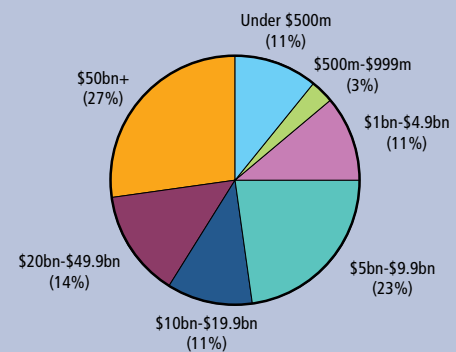
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



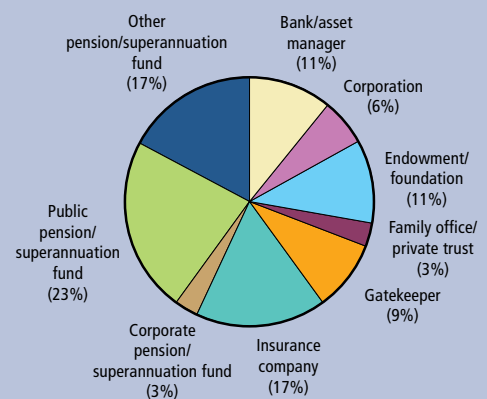
(Figure 17)

Respondents by total assets under management



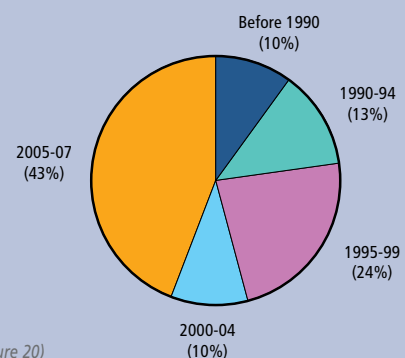
(Figure 18)

Respondents by type of organisation



(Figure 19)

Respondents by year in which they started to invest in Australian PE



(Figure 20)

Coller Capital

www.collercapital.com