

# A NEW PHASE FOR THE PRIVATE EQUITY INDUSTRY IN ASIA

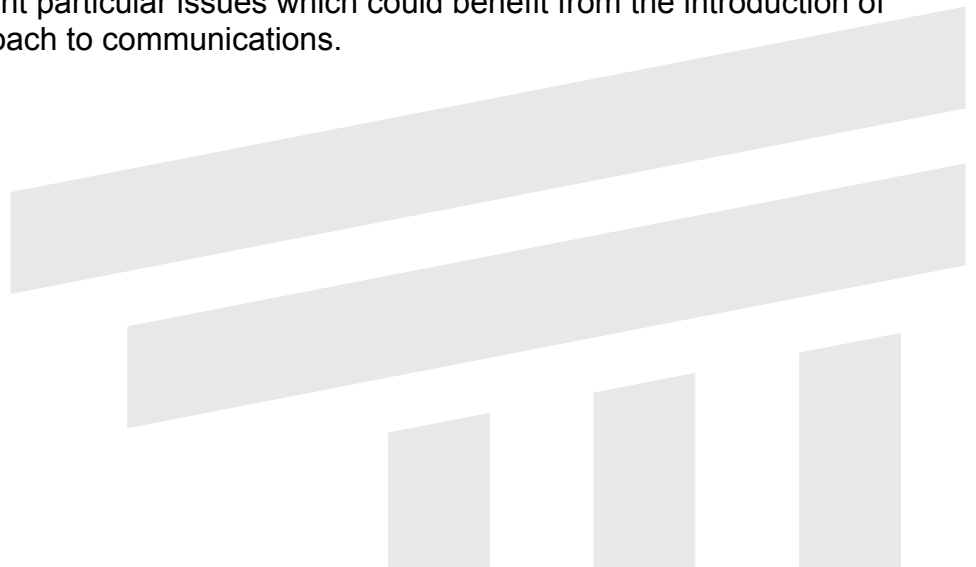
## *How to Address Current Challenges and Leverage Strategic Communications for the Benefit of Your Business*

The private equity industry in Asia is in a state of rapid and continual change. Every day we read about a new fund house being set up, a new fund being raised or a senior management reshuffle. With this level of competition in some of the world's fastest developing capital markets, the industry has entered uncharted waters with the catalyst for this change being the global investors who are seeking to benefit from Asia's secular growth trend.

One of the challenges facing the industry is a lack of in-depth understanding about the fundamental objectives and investment strategies of private equity firms. Where there is ambiguity surrounding their intentions, major misconceptions and skepticism can flourish. Although news coverage is generally positive, much more so than Europe, a trawl through the media uncovers an underlying tone of suspicion that private equity firms are driven totally by short term gains and operate without due concern for the long term future of their portfolio companies. Even among the more sophisticated investor community, there is a lack of appreciation about the differences between private equity firms – firms are seen as indistinguishable members of a little understood industry.

In considering how to address these challenges it is worth remembering the power that a bespoke communications program can have on a private equity firm's business. At the centre of this potential positive force on a firm's prospects is a capacity to better develop its reputation within the industry, manage and control sensitive, potentially threatening situations with portfolio companies and promote the firm's long term outlook and distinguishing characteristics.

The points below highlight particular issues which could benefit from the introduction of a more disciplined approach to communications.



## **Competition and Investor Selection**

'Home grown' star deal makers having spent their formative years at the big global private equity houses are setting up on their own. Small venture capital (VC) style players, the big global houses with their multibillion dollar funds, and hedge funds who are increasingly using private equity type structures to make investments are all in the same space. With all of this competition, reputation is more critical than ever before. Attracting the right kind of investors and being optimally positioned to source potential deal flow is a key concern.

After the global financial crisis, private equity funds are focusing on the more stable institutional investors who better understand the asset class. But how do these institutions allocate their funds? What are their criteria? What is going to make them think of a specific private equity house at the right time and how much of that is reinforced by what they read and what they hear as opposed to what you tell them? Within the private equity industry, word of mouth is important but not enough. Being part of the story amongst your peer group, though not the focus, is a useful way to make sure you are considered as one of the firms on the list for attention.

*A private equity firm's ability to consistently communicate a successful track record has a big part to play in answering that question for potential investors.*

## **Transparency**

As an investor, looking at the plethora of private equity funds to choose from and the relative immaturity of the capital markets (particularly with respect to debt financing) in the Asia region, there is a real danger of mis-directed capital. Investors want to know which funds are going to make the right investment decisions and therefore, a private equity firm's ability to consistently communicate a successful track record has a big part to play in answering that question for potential investors. Investor Relations is also playing a major role as the conduit between the investment teams and limited partners.

In actual fact, the level of disclosure and due diligence required from those coveted institutional investors has become extraordinary. In talking to some institutional investors, it is clear a lack of transparency is a stumbling block to investing in this alternative asset class. This 'institutionalisation' of private equity funds has become a key concern for investors and showing that you have the right structures in place, a strong and well-defined investment philosophy, a robust investment process and strong track record is a big part of this.

## **Target Companies**

Once funds have been secured, the next challenge is to convince the vendors that you are the 'buyer of choice' – that you aren't a 'vulture,' and that you are going to provide the best exit with maximum clarity and certainty and minimum conditionality. Key to securing a steady flow of deals is for the main deal participants to have you on their radar. Deals come through long term relationships with corporate contacts, through investment bankers, via lawyers, and so on. Most deals remain in this closed network and never reach the public before being announced.

*Increasing the visibility and reputation of your firm can be done through effective thought leadership programs and media relations activity.*

In order to increase the opportunity to participate you need to be 'top of mind' with these primary contacts. There are a number of things which can be done to gain a competitive edge. Raising your profile appropriately with the key deal makers is part of this. Increasing the visibility and reputation of your firm can be done through effective thought leadership programs and media relations activity, whereby your industry experts can secure a greater share of voice in the market. In the process you can also choose to deliver specific messages such as your core values and reinforce credibility. By providing market insights and thought provoking comments on the trends of latest market issues, you can show your firm and executives are thought leaders and industry experts – and therefore are an attractive potential counterparty.

## **Conflict of Interest**

Managing information about financial returns on investments can be a highly challenging undertaking. In sections of the Western media, making money can generate negative headlines. This is generally not the case in Asia, but there have been a few notable examples of where profits have been deemed excessive and have given rise to a backlash against foreign private equity investors from local competitors and governments.

Divergence of business strategy between a private equity firm and the previous owner who still has a significant stake in the business can also give rise to issues, and we have seen this spilling over into the public domain a number of times. Whereas the private equity company may well be doing the right thing by the investee business and achieving results, we've seen this type of situation reported as a 'failure' so many times, it's harmed the way the industry is viewed.

*Choosing when to engage with the media, whether it's on or off the record, is an important factor.*

What this means in practice is that alignment of interests is important to consider when publicly referring to your investing track record or success. 'Appropriate' is a useful word to consider when deciding how to manage your communications. Attempting to secure media coverage just for coverage sake doesn't work in place of a carefully thought through strategic approach to deciding what needs to be said, when and to whom. In particular, during these times of nationalistic interest, education is key. Choosing when to engage with the media, whether it's on or off the record, is an important factor.

## **Exits**

When the time comes to exit an investment, whether it is a trade sale, an IPO, or a sale to another private equity firm, timing and flexibility is everything. There is tremendous pressure from all sides when an exit strategy is under consideration. Potential buyers are only wanting to pay a competitive price and market windows are increasingly opaque. Communication and advance preparation play key roles here. The most prepared private equity firms are going to be effectively describing strategies to their investors, to the general market, and at the appropriate time, to regulators.

## **CONCLUSIONS**

Whilst it has historically gone against the general nature of how private equity firms operate, we can already see that it's going to be increasingly important for individual firms to take control of how they are perceived and manage their corporate reputation. Attempting to secure media coverage or explain a point of view on an ad hoc basis is not a substitute for a carefully conceived strategic approach to deciding what needs to be said, when and to whom.

By carefully considering what's appropriate you can show your firm and executives to be thought leaders, industry experts and established deal makers. Therefore, a private equity firm's ability to consistently communicate about its philosophy, investment approach and successes has a big part to play in answering that question for potential investors, vendors and deal participants.

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