



## AVCJ Asian Private Equity & Venture Forum

March 4-6, 2009 - Sydney

*“Emerging Opportunities in PE:  
Strategic Capital”*

Joseph W. Ferrigno III, Managing Partner  
Asia Mezzanine Capital Group



- **Hybrid/Mezzanine Finance Specialist focused solely on Asia:** Direct investment fund management firm comprised of a team of former credit-oriented ex-bankers, private equity practitioners, consultants and businessmen

- **Strategic Financial Partner for MSEs and PE firms:** Help fund major strategic developments: major capex programs/projects, mergers, acquisitions, restructurings and recaps; and buyouts

- **Pioneers in the Asian Mezzanine Markets:**
  - US\$246 million Asian Infrastructure Mezzanine Capital Fund, sponsored by Prudential Financial and ADB
  - Asia Strategic Capital Fund, L.P.

- **Investment Fiduciary for Global Institutional Investors:** Manage “defensive PE-type” more risk averse PE allocations to generate superior risk-adjusted returns, including current income and capital appreciation

### Partners:



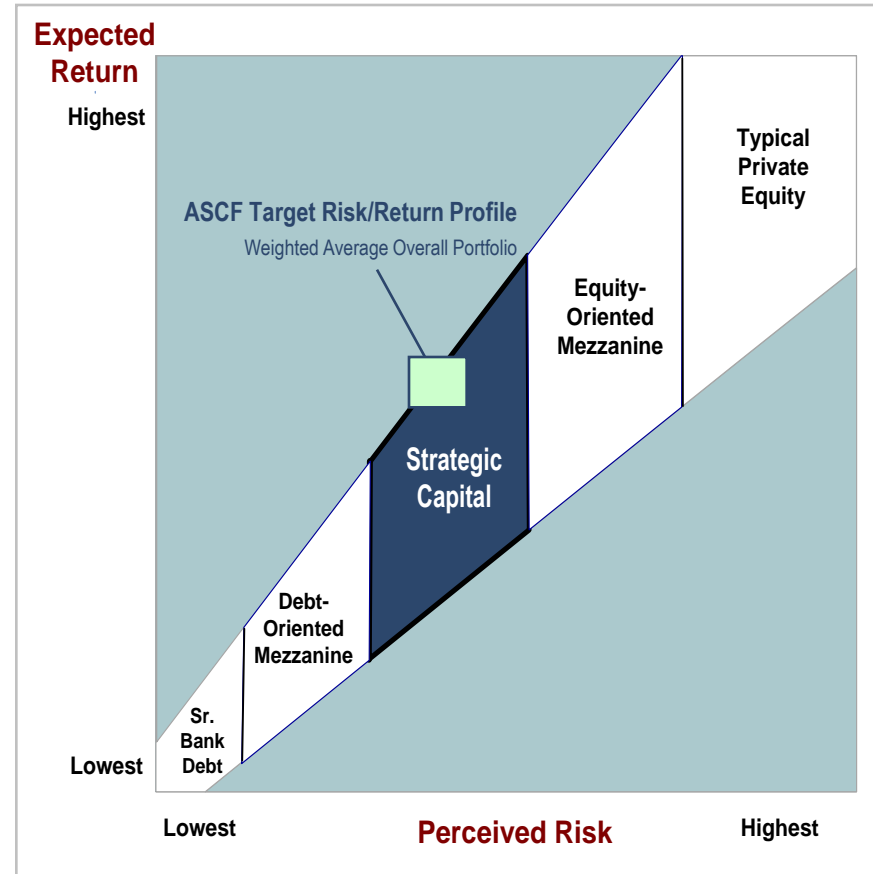


- **Senior debt technicals weakening but relatively stronger compared to rest of world and other capital markets.**
  - CLOs / other leveraged Western players were very minor players in Asia.
  - Most aggressive Western structures had not widely migrated to Asia.
  - Some large company defaults occurring : Ferro China and Asia Aluminum
  - Some non-traditional Asian players, mainly debt funds and other non-bank financials are entering market for syndications.
  - Some local/regional banks now under pressure and restricting credit
  - Leverage levels have generally been reduced by 3-4 turns.
  - More restrictive covenants and market and business MACs are becoming more common.
  
- **High yield debt conditions have deteriorated**
  - HY never a major component of Asian LBOs given small size of market and banks reluctance to underwrite
  - Asia therefore more of a stretch senior LBO market
  
- **Equity market conditions have seen a marked decline**
  - Demand sharply reduced with IPOs postponed or withdrawn
  - Valuations significantly reduced



**Principal Characteristics :**

- Funds **strategic development** of **medium-sized companies**, e.g. : major capital expenditure programs, buyouts, M&A events, recapitalizations and privatizations to capture potentially high equity value enhancement
- Layer of **debt-type capital** between senior debt and common equity, including subordinated debt, preference shares, convertible bonds
- **Cash and PIK interest or dividend payments**
- Repayment of debt component through **amortization, redemption** or conversion
- **Covenant protection and creditor rights**
- **Equity participations**



# “Strategic Capital” Value Proposition for Enterprises and PE Firms in Asia

## - Longer-term flexible capital with limited equity dilution and strategic benefits



Asia Mezzanine Capital Group

1 - Fill a  
Financing  
Gap

Enterprises have limited or no access to more senior debt and equity due to the conditions in the global and local credit and equity markets :

- Can serve as the only “debt-type” capital
- May leverage other debt and equity capital
- Longer time horizon than banks and hedge funds

2 - Minimize  
Equity  
Dilution

Lowers the cost of capital relative to ordinary private equity:

- Trades off potentially unlimited, but uncertain, equity returns for a lower but somewhat more certain debt-like return, while preserving elements of equity participation, with flexible terms
- Less equity dilution for existing shareholders

3 - Leverage to  
Boost Equity  
Returns

Enhances equity returns in buyouts as complement to already “maxed-out” prudent levels of senior debt

Reduces amount of cash equity required by sponsor with non-competing capital

4 - Offer  
Flexibility

Enables flexible structuring to meet specific needs of borrowers:

- Adjust amortization schedule to match cash flows
- Some element of PIK may be possible
- Can utilize mechanisms to reduce dilution

5 - Strategic &  
Financial  
Benefits

Provides expertise for support, advice and assistance:

- Validation of the business and its strategy
- Assists with financing strategy and implementation
- Provides regional/global relationship-access via network

Highly applicable to:

*Growth Capital*

*Buyouts*

## “Strategic Capital” Value Proposition for Institutional Investors:

- *Equity-like returns with downside protections*



Asia Mezzanine Capital Group

Participate in  
Positive Asian Macro-  
dynamics with lower  
risks

Asian countries are growing at relatively high rates while their enterprise and legal systems are reforming, with positive implications for private direct investment.

Superior  
Risk-adjusted  
Returns

- Growth capital for expansion, mergers and acquisitions
- Recapitalizations, refinancings, restructurings
- Privatizations
- Special situations

Skillful Selection and  
Structuring:

- Protect Downside
- Capture Upside
- J-Curve mitigation

Strategic Capital investments can be conservatively selected and effectively structured with lower risk and less volatility than traditional private equity, while capturing a portion of potentially highly attractive equity returns. J-Curve impact is mitigated via distributions of current income.

*Highly  
Attractive  
Value  
Proposition*



**Joseph W. Ferrigno III**  
**Managing Partner**  
**Asia Mezzanine Capital Group**  
**Hong Kong**  
**Tel. 852 9454 8665**  
**[joseph.ferrigno@asiamezzanine.com](mailto:joseph.ferrigno@asiamezzanine.com)**