



22nd Annual AVCJ Asian Private
Equity & Venture Forum
November 13, 2009 – Hong Kong

Emerging Opportunities in Asian
Alternatives:
*“Mezzanine Is in the Eyes of the
Beholder: Value Propositions”*

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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:



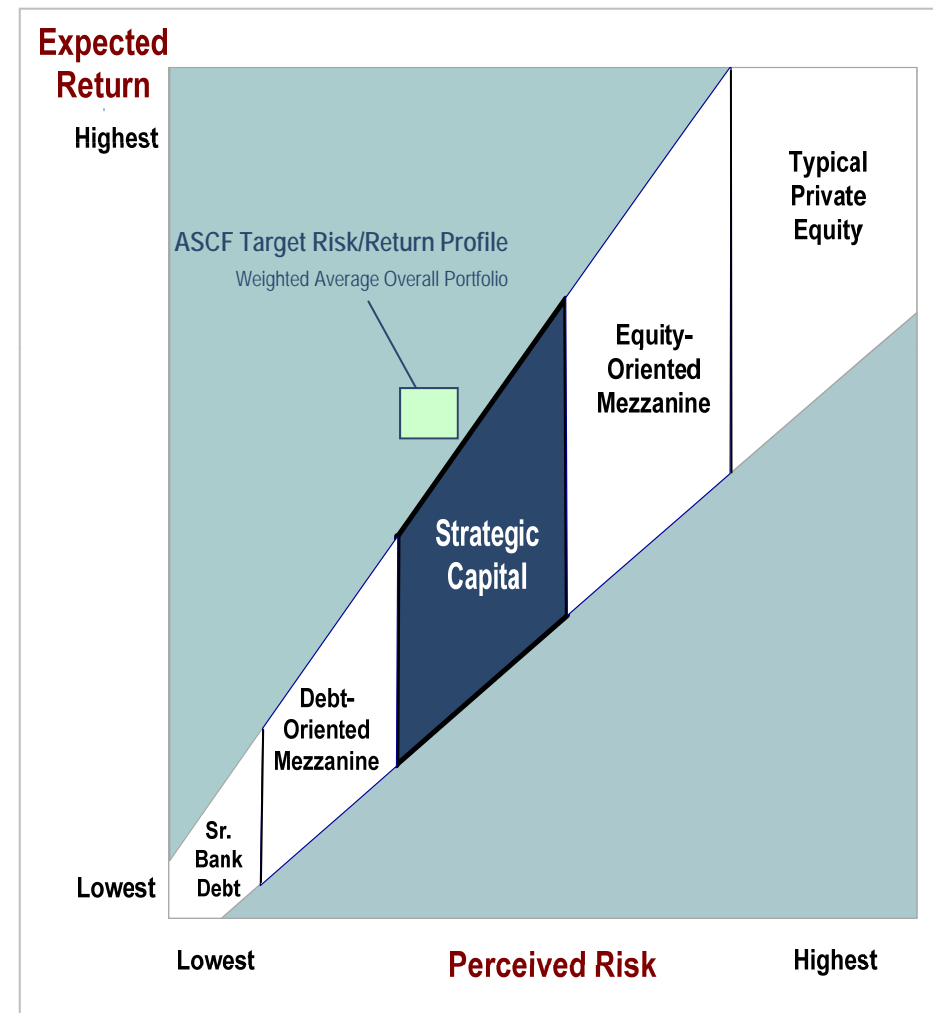
"Mezzanine is in the Eyes of the Beholder: Value Propositions" - Broad Range of Risk/Return Profiles



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"AMCG Strategic Capital" - Defensive PE Investing Using Hybrid Debt/Equity:

- 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
- **Creditor rights** via covenants, restrictions on debt levels and security interests rights to information , meetings with board and management
- **Equity participations** via warrants, options, revenue share, conversions and other methods



"Strategic Capital" Value Proposition for Enterprises and PE Firms in Asia

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



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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:

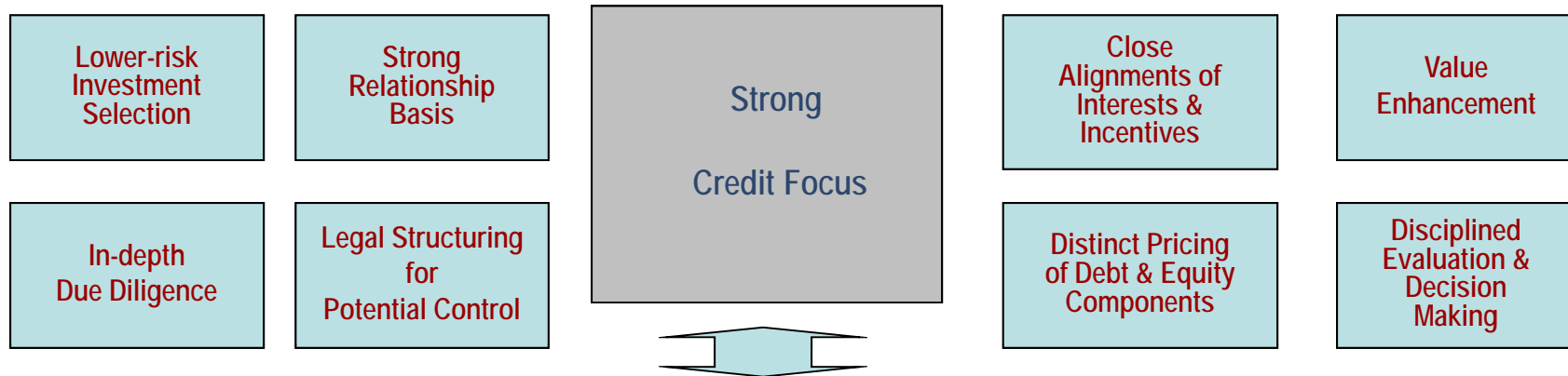
Growth Capital

Buyouts

Strategic Capital : Credit-based Approach and Practices - Focus on the Basics



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- Identify **threats** to the business
- Identify **opportunities** for the business
- Formulate scenarios and cases comprised of key business model variables, i.e. revenue and margin drivers, interest rate levels, working capital needs and capital expenditures; and different financing plans
- Focus on scenarios and cases which are adverse to the potential portfolio company and identify potential downside protections
- Project credit metrics for each scenario and case: Debt Service Coverage, Debt/Equity and Debt/EBITDA
- Evaluate and assess acceptable debt capacity levels for the particular risk profile
- Require current interest payments and amortization
- Require positive, negative and financial covenants, which are designed to be triggered prior to default
- Require debt service reserve and escrow accounts
- Obtain security interests, including pledges of shares and liens on accounts and assets, for exercise of potential control
- Utilize two separate investment committees to ensure checks and balances on acceptance of credit exposures and appropriateness of distinct pricing for debt and equity risks

Strategic Capital Lessons Learned:

- Investment Criteria and the Critical Importance of Credit-oriented Selection



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- **Strong Relationships:**
 - > Proven management with significant ownership interests
 - > Influential shareholders of good repute with control and a commitment to improving corporate governance
 - **Valid and Robust Business Model**
 - Established less-cyclical businesses with steady cash-flow generating and debt-servicing capabilities tested under adverse scenarios
 - Utilizing proven technologies
 - Defensible market positions
 - Potential for high growth
 - Potential for significant efficiency improvements
 - **Undergoing Major Strategic Development**
 - major capital expenditure program,
 - M&A events
 - Buyout/Buyin
 - Restructuring
 - Privatization
 - Special situations
 - **Assets, including equity securities, available as collateral for potential exercise of control**
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Strategic Capital Value Proposition for Institutional Investors

- *Equity-like returns with downside protections*



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