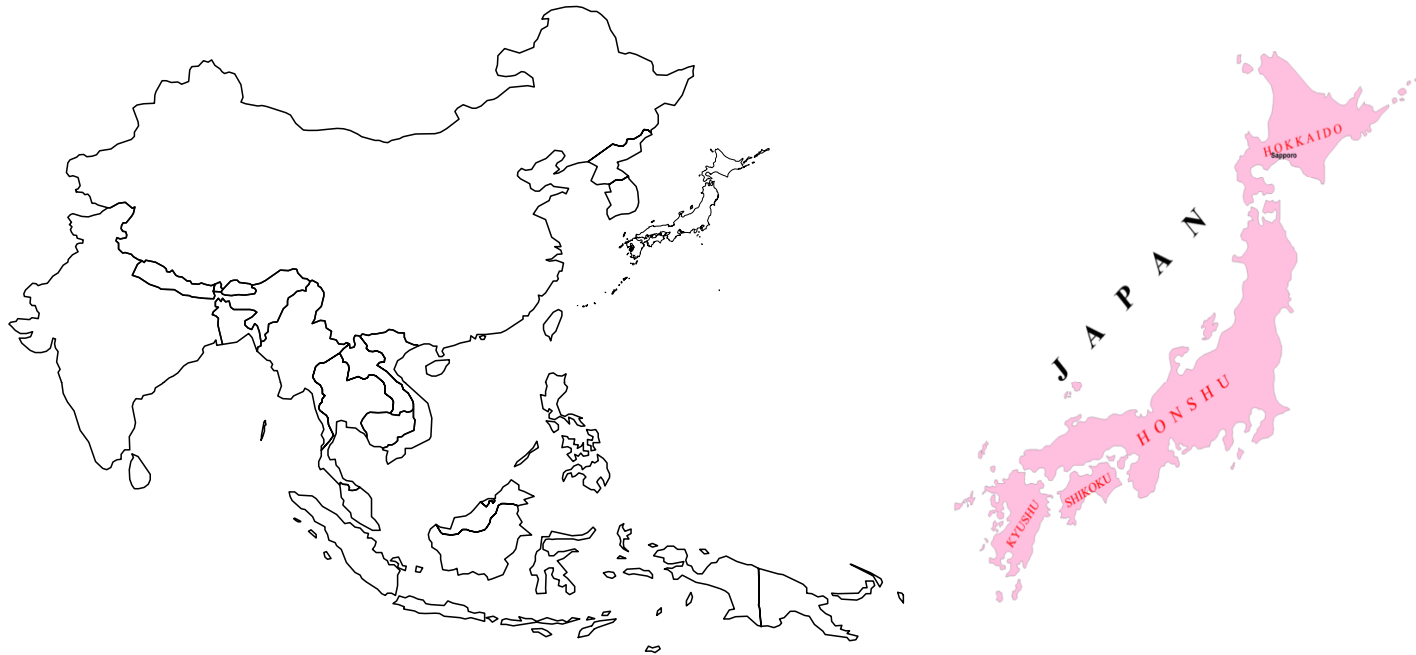


AVCJ Tokyo Private Equity & Venture Forum

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**“Debt and Mezzanine for growth, buyouts, banks and investors in and outside Japan:
different value propositions”**

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Shinichi Kato, Executive Vice President, Head of Leveraged Finance, Credit Agricole CIB, Tokyo Branch

Chikara Okada, Representative Director, Citicorp Venture Capital International (CVCI) Japan

Koji Sasayama, Managing Director, Mezzanine Corporation

Hideya Sadanaga, Deputy General Manager, Credit and Alternative Investment Department, Nippon Life Insurance Company



- **Debt:**

What are the banks requiring of new borrowers?

- **Mezzanine Debt & Hybrid Debt/Equity Capital:**

What are the differences in terms of types, equity dilution, cash flows, risk/return profiles, and availabilities?

- **Portfolio Companies:**

How can they adapt to the new requirements of risk capitalists?

- **Investors:**

How can they benefit from the increased demands for risk capital?



➤ **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:





- Financed the Fourth Crusade by the Venetians during the early 13th century
- Financed the “Black Ships” of European explorers in Asia during the age of globalization during the 15-17th centuries
- *Long proven track-record of downside protections with profit-sharing*

Hybrid Debt/Equity "Asia Strategic Capital": Value Proposition for Institutional Investors: *Credit-based Selection with Downside Protections + Equity Upside = Superior Risk-adjusted Returns*

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:
- Current income: 10%
- IRR: 21% to 23%
- Multiple: 2X

- + **Funds only major strategic developments of promising medium-sized companies:**
 - Growth capital needed for expansion, mergers and acquisitions
 - Capital needed for recapitalizations, refinancings, restructurings, privatizations and special situations
- + **Buyout firms have greater needs to leverage potential returns in increasingly competitive markets where availability and terms for senior debt are less attractive.**

With Skillful Selection and Structuring:
- Protect Downside
- Capture Upside
- J- Curve mitigation
- Less volatile valuations

- + **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. Valuations are less volatile than typical PE investments.**

= *Highly Attractive Value Proposition*



- “If you would know the value of money, go and try to borrow some; for he that goes a borrowing goes a sorrowing.”

BENJAMIN FRANKLIN, *Poor Richard's Almanac*

- “Home life ceases to be free and beautiful as soon as it is founded on borrowing and debt.”

HENRIK IBSEN, *A Doll's House*

- “Neither a borrower nor a lender be; for loan oft loses both itself and friend.”

WILLIAM SHAKESPEARE, *Hamlet*



- The Five C's of "*Creditus*", *df. "faith and trust"*
 - *Character*
 - *Capacity*
 - *Capital*
 - *Cash Flow*
 - *Collateral*

- Focus on Valid Credit Metrics
 - *Debt/EBITDA is not enough*
 - *Debt Service Coverage Ratios – Historical and Projected*

- The Brain Should Govern the Computer

*Senior Debt, Mezzanine Debt & Hybrid Debt/Equity Capital:
What are the requirements of new borrowers?*



Asia Mezzanine Capital Group

Benchmarks (for New Transactions)	2007	2010
Senior Debt / EBITDA Levels	5.0-6.5 X	3.0-4.0 X
Equity Capitalization %	20-30%	40-50%
Degree of Covenant Protection (Senior Debt)	Moderate	High
Market-expected Mezzanine Returns (Large transactions)	13-15%	17-19%
Market-expected Mezzanine Returns (Mid-sized transactions & growth capital mezzanine)	15-17%	18-22%
Availability of Equity Warrants in Mezzanine Financings	Moderate	Almost Always



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