

**AVCJ Asian Private Equity  
& Venture Forum  
July 8, 2008 – New York  
“Asian Private Equity:  
*continued growth and opportunity?*”**

**Moderator:**

**Rodney Muse, Founder Partner  
NAVIS CAPITAL PARTNERS**

**Panelists:**

**Harjit Bhatia, Chairman, Private Equity Asia**

**CREDIT SUISSE**

**Michael Cook, CEO**

**MACQUARIE CAPITAL ALLIANCE GROUP**

**Joseph W. Ferrigno III, Managing Partner**

**ASIA MEZZANINE CAPITAL GROUP**

**Benjamin Jenkins, Sr. Managing Director**

**THE BLACKSTONE GROUP**

**Thomas Quinn, Managing Principal**

**THE JORDAN COMPANY**



- **Independent Specialist Mezzanine Fund Manager:**  
Team composed of credit-oriented ex-bankers, private equity practitioners, businessmen and management consultants. Currently manage the **Asia Strategic Capital Fund, L.P.**, a pan-Asian direct investment fund providing mezzanine/hybrid-type capital.

- **Strategic Financial Partner for Medium- sized Companies and PE firms:**  
Help fund promising companies undergoing major strategic developments: very large capital expenditure programs/projects, mergers, acquisitions, restructurings, recapitalizations and buyouts with longer-term non-controlling capital

- **Pioneers in the Asian Mezzanine Markets:**  
Certain senior members founded and managed the first mezzanine fund for Asia, the US\$246 million Asian Infrastructure Mezzanine Capital Fund, sponsored by Prudential Financial and the Asian Development Bank.

- **Active Investor:**  
While the “Credit Crunch “has reduced availability of most forms of capital, AMCG is actively investing mezzanine capital today in promising companies throughout Asia.

### Strategic Partners:



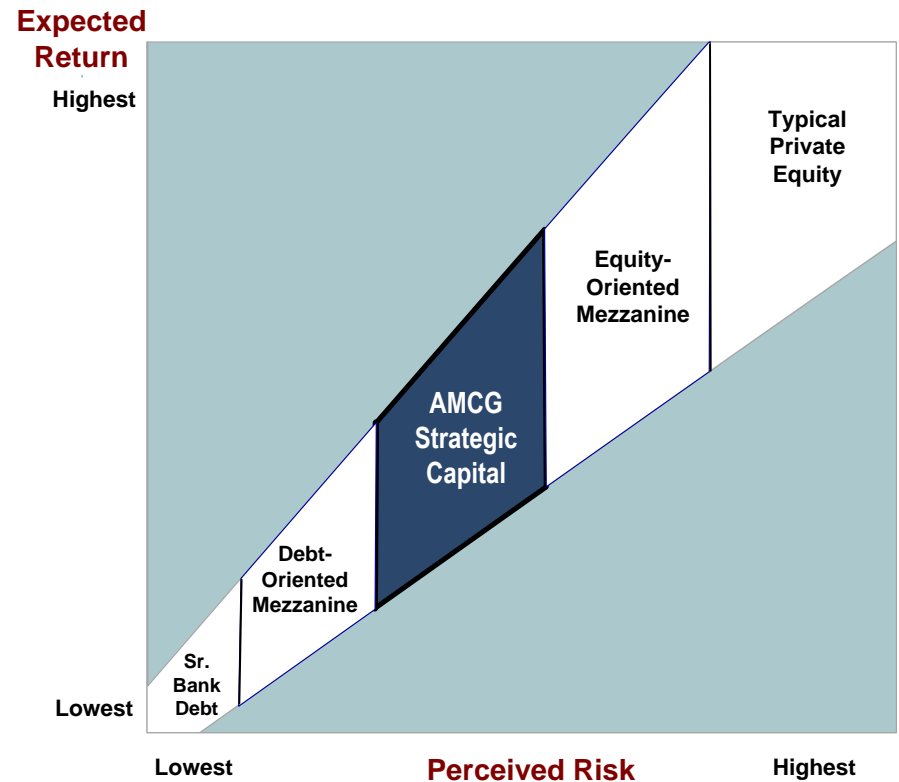


- **Structural Characteristics**

- > Layer of capital between senior debt and equity with debt and equity components, typically subordinated debt with equity warrants
- > Amortization/redemption
- > Equity participations via warrants, options and other forms
- > Covenants protections and creditor rights

- **Costs**

- > Current cash interest
- > PIK interest
- > Equity participations



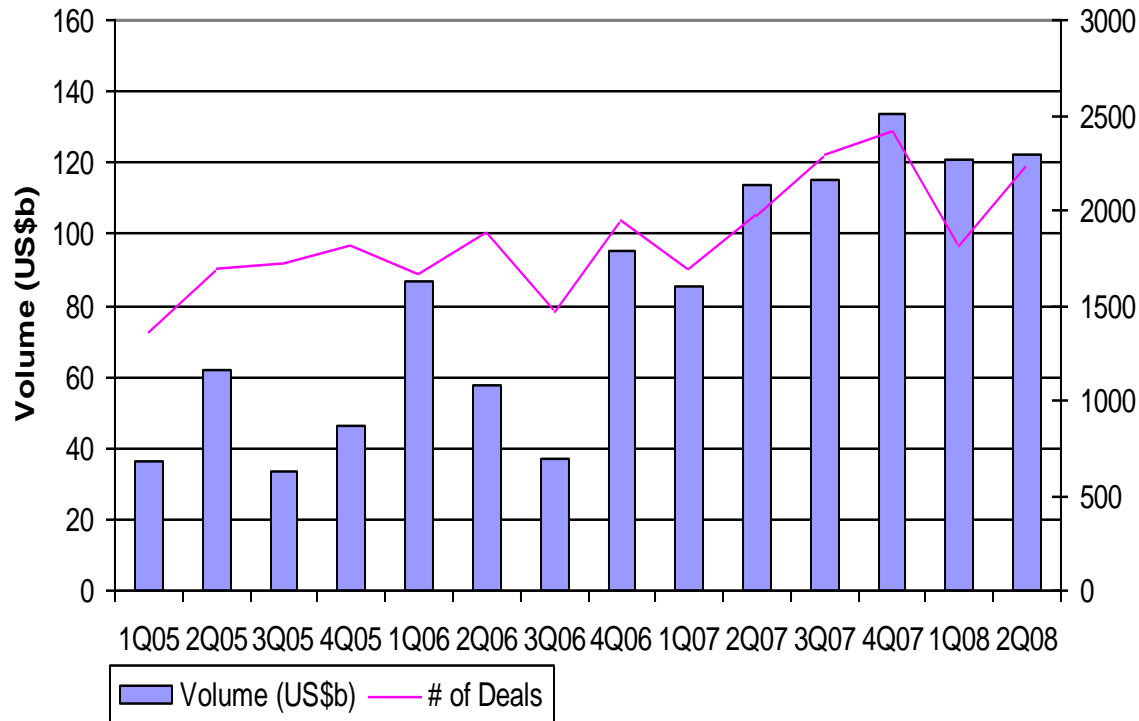


➤ **Economics 101** (“*It’s the Economy, Stupid*”)

- ✓ **Stronger Macro Conditions:** GDP and populations growth rates higher
- ✓ **Productivity Growth Potential:** Has a much longer way to go, e.g. telecommunications, computer and software applications
- ✓ **Economic Convergence Theory:** Asia catches up to the developed world at a rate that exceeds the developed world’s growth rate
- ✓ **Country Risk Mitigants:** Huge financial reserves have been accumulated vs. over-indebted national systems and large obligations to others
- ✓ **Main PE Investment Opportunity Drivers :**
  - Huge growth in infrastructure, infrastructure-related and consumer businesses.
  - Major established trend toward more domestic, intra-regional and global mergers and acquisitions
- ✓ **Value of “Intelligent Capital” is High:** Rewards from improvements in business management and technology transfers can be huge
- ✓ **Decoupling is a Myth:** “Contagion” is becoming “congruence”



Asia (ex-Japan) Announced M&A by Quarter



Source: Thomason Reuters

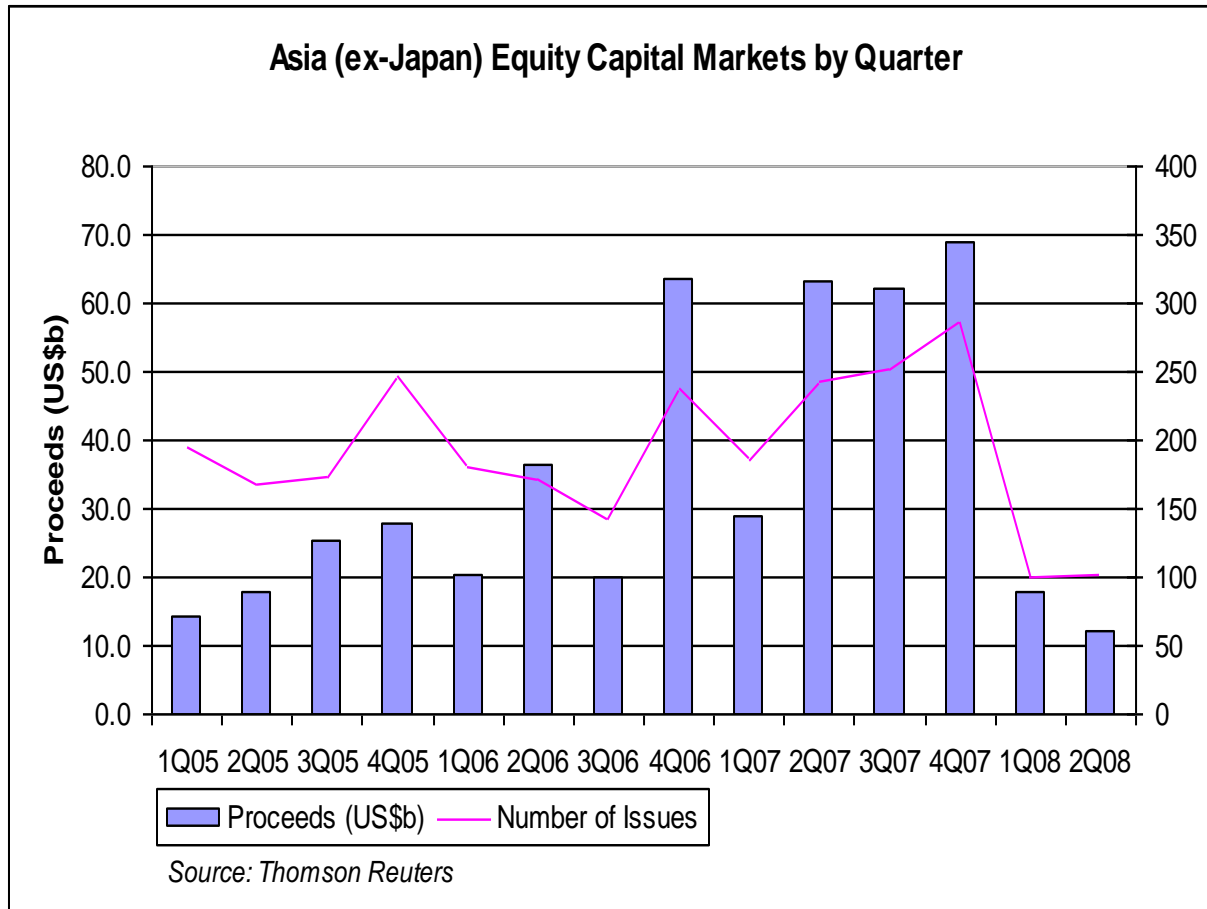
**Key messages:**

- Asian M&A activity remains robust, partly leading to the strong syndicated loan markets.
- Activity remains near record levels – announced volume during the first half of 2008 was only slightly less than the volume for the whole year of 2006.



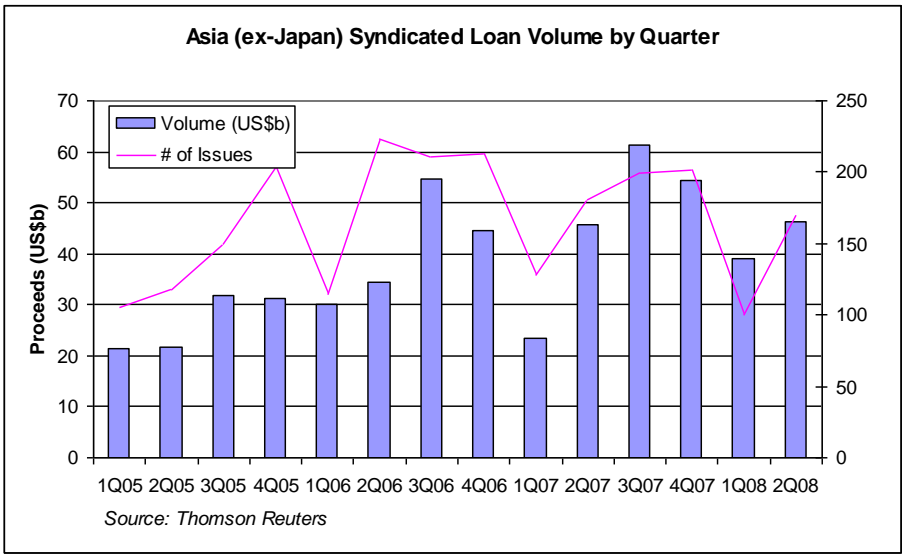
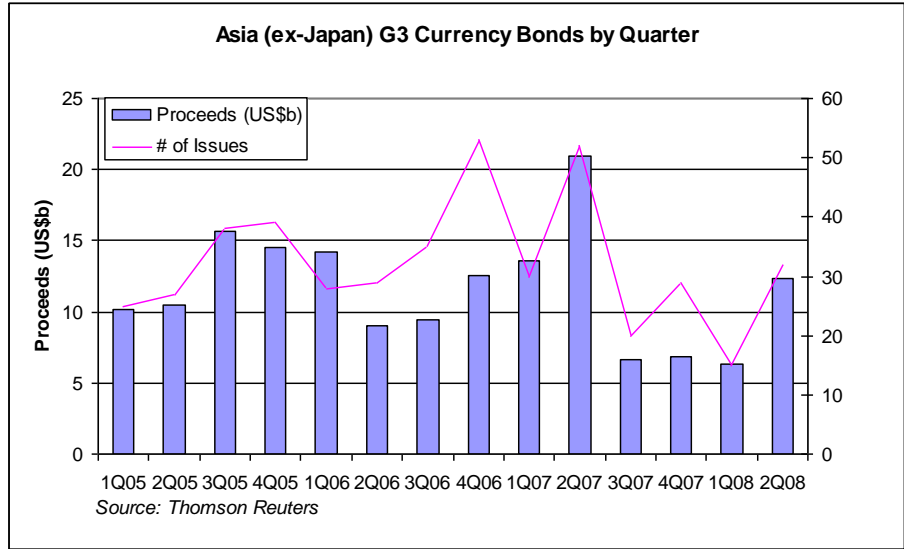
➤ **Finance 101 (“No Nobel Prize Winners Needed or Wanted”)**

- ✓ **Less Financial Risk:** Financing structures employ lower leverage
- ✓ **Limited Alchemy:** Little use of the CDO market
- ✓ **Higher Reinvestment Rate:** Retained earnings reinvestment is higher
- ✓ **Reasonable Valuations:** Significant equity and debt market corrections occurring
- ✓ **Limited Equity Market Dependency:** Large segment of the private equity market is not dependent of the stock market (ex-Japan)
- ✓ **High Equity Market Volatility:** Public equity market volatility is high and issuance volumes highly sensitive to sentiment
- ✓ **Decoupling is a Myth** – “Contagion” is becoming “congruence”



**Key Points:**

- Proceeds volumes have declined dramatically during the first half of 2008 with volumes off by 2/3 vs. the record levels of 2007.
- Negative trends accelerated during Q2 2008 with volumes off by ~80%.
- Several new listings have been pulled or postponed in recent weeks.



**Key Points:**

- Issuance in the debt markets has been mixed with a decline by just less than half in the bond market but increased borrowings in the syndicated loan markets, somewhat offsetting declines in other markets.
- High yield market issuance remains relatively light, well off 2005 levels.
- Pricing trends in Asian debt markets have been negative with significant increases in spreads across all three markets.



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

WILLIAM SHAKESPEARE, *Hamlet*

- “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*



➤ **Outlooks for PE Buyout, Growth, and Distressed Investing Options**

- **Buyouts:** Returns in Asia not so adversely affected by lower leverage and longer exit times
- **Growth:** Opportunities continue to be more highly attractive than public equities
- **Investment Thesis - China:** Intact: continuing massive urbanization, steady improvements in infrastructure and in the implementation of reforms (enterprise, financial and legal systems) and high government stability = Domestic Growth & Global Buyouts.
- **Investment Thesis - Japan:** Emerging slowly but surely: large size and huge unlocked values in businesses due to significant corporate governance reforms stimulated by activist investors = Domestic & Global Buyouts; Domestic Growth
- **Investment Thesis – India:** Not currently as attractive as China. **P/Vision vs. P/Earnings** = Only OK if the great visions can be implemented near term.....which they cannot
- **Investment Thesis – ASEAN:** Countries selectively attractive = Domestic and Regional Buyouts, Domestic Growth and Distressed
- **Developed World Distressed:** Currently may be more attractive than in Asia, because valuation reductions have been much greater = upside may be much higher.



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