

Private capital positioned for faster growth in Asia-Pacific

Investors continue to allocate to the region, drawn to the high growth and favorable characteristics of private capital deals

Private capital in Asia-Pacific has grown at a compound annual rate (CAGR) of 20.1% per annum over the past 10 years, about 80% faster than North America and Europe, according to Preqin. It currently has \$2.8tn assets under management (AUM) and will soon overtake Europe to become the second-largest region for private capital, behind North America.

Buyouts have attracted increasing attention in recent years, but growth and venture capital dominate in APAC, which accounts for about 45% of the total invested worldwide in each strategy. Even though more buyout transactions are expected, particularly in China, the Asia-Pacific market will remain dominated by minority stakes in companies that are expected to grow faster than their Western peers.

Fundraising is down sharply from its peak of \$356bn in 2017. Asia-Pacific-focused funds raised \$222bn in 2021, or 15% of the global total, down from 31% in 2016. A huge increase and subsequent decline in China growth and venture capital funds explains the trend, and the funds raised for other countries in the region have remained stable over the past five years.

Positive prognosis for performance

The horizon IRR for the five years to September 2021 in Asia is 16.6%, lower than for North America (17.4%) and Europe (17.8%), where large buyouts have benefited from multiple expansion and financial engineering. On average, Asian transactions (even buyouts in countries such as Japan or Australia) have significantly lower financial leverage than those regions. Furthermore, while acquisition multiples in the West have continued to increase despite the



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pandemic, in line with multiples paid for public companies, private transactions in Asia have been closed at a higher discount than to listed peers.

The apparent contradiction between the growth of the market, fundraising, and performance can be explained by the particular nature of Asia-Pacific's private equity market. More than half of the private equity capital invested since 2015 has been oriented toward technology deals. Greater China (177), Southeast Asia (26), and India (63) have seen a rapid increase in the number of new unicorns since 2015, according to CB Insights. However, investing through minority stakes in innovative companies takes relatively more time to deliver satisfactory cash-on-cash returns than control buyouts, where GPs can easily time their exit, including through sponsor-to-sponsor transactions or continuation vehicles.

We remain optimistic about private capital in Asia-Pacific. Higher interest rates globally and the better macroeconomic prospects in Asia-Pacific should keep the region a good destination for private capital.

Founded in 2001, **Capstone Partners** is a leading placement agent focused on raising capital for private equity, credit, real assets, and infrastructure firms from around the world. **Alexandre Schmitz** leads the firm's Asia-Pacific operations and is responsible for distribution and client origination in Asia-Pacific.

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