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PRIVATE EQUITY & PRINCIPAL INVESTORS PRACTICE

# Private equity's new Asian strength

**A rebound signals opportunity—and a need for flexibility  
as the market evolves.**



**While the private-equity** business remains in the doldrums in much of the world, the Asia–Pacific region stands out as an exception. A recent McKinsey report, *Private equity Asia–Pacific: Is the boom back?*, shows that in 2011, Asia was the world’s only major region where these firms’ total investment values returned to 2006 levels—a total of some \$65 billion (exhibit). At 21 percent of global deal values, Asia’s share of the private-equity business is now close to matching Asia’s share of global GDP: 28 percent. Yet the gap between the two figures leaves substantial room for growth: on average, the ratio of private-equity investment to GDP among Asian countries is less than half that of the United States or the United Kingdom.

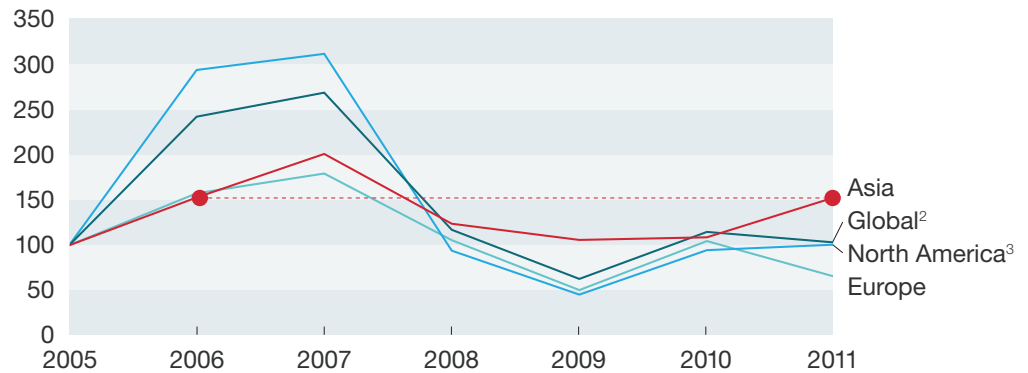
Taking advantage of the opportunity will mean confronting rapid changes. Among the most notable is a sharp increase in deal volumes, which are growing faster than total deal values almost everywhere in Asia. Across the region, volumes more than doubled, while values have risen by only 40 percent. The size of the average deal is therefore falling.

Consequently, investors feel new pressure for strategic innovation, especially in light of a steady (if slow) recovery in fund-raising. More money chasing smaller deals may strain some players’ current business models. Partly as a result, partnerships with strategic

Exhibit

Total private-equity investment value in Asia has returned to 2006 levels.

Total private-equity investment<sup>1</sup> by value; index: 2005 = 100%



<sup>1</sup>Includes buyouts, turnarounds, private investment in public equity, expansion, pre-IPO, and mezzanine investment.

<sup>2</sup>Includes Asia, Europe, and North America.

<sup>3</sup>Canada and United States.

Source: *Asian Venture Capital Journal*; Global Insight; RECOF; S&P Capital IQ; McKinsey analysis

acquirers are becoming increasingly common, reflecting Asia's newfound prominence as a source of outbound M&A. The number of "cornerstone" deals, in which a fund takes part in an initial public offering (IPO) by agreeing to hold its shares for a certain period of time, has also continued to increase, despite a weak IPO market in much of the region. And investors are pushing into countries, including Vietnam and Indonesia, that previously attracted little attention.

Change also marks the exit stage of investments, both for general partners and limited partners. For the former, volatile public-equity markets meant that, on the whole, exits were down by almost 40 percent in 2011—especially via IPOs (notwithstanding a few notable exceptions), which fell almost 60 percent. But for the latter, the news is more encouraging: a maturing market for "secondary" funds (which invest in limited partners' interests in existing funds) has increased the liquidity and flexibility of limited partners' investments.

The report then provides an in-depth look at the six diverse markets that together account for virtually all private-equity investments in the region: Australia/New Zealand, Greater China, India, Japan, South Korea, and Southeast Asia. Among the highlights:

- **China** alone accounted for almost 45 percent of Asia's 2011 activity, but slowing economic growth has raised concerns about that trajectory's sustainability.
- In **India**, by contrast, the private-equity business's growth has rested almost entirely on small deals. Combined with rising dry-powder levels, greater local competition, and persistent regulatory uncertainty, the emerging picture is that of a traditional operating model under greater pressure than ever.
- **Southeast Asia** saw a number of high-profile deals, with Indonesia and Vietnam generating particular excitement, along with Myanmar, whose attempts to emerge from decades of sanction-enforced isolation have caught many observers by surprise.
- Among Asia's mature markets—Australia/New Zealand, Japan, and South Korea—**Japan** saw the most significant changes in 2011. For investors locking in currency gains, the rising yen made exits especially attractive: exits doubled in number over 2010 and more than quadrupled in value.

Download the full report, *Private equity Asia-Pacific: Is the boom back?*, on [mckinseyquarterly.com](http://mckinseyquarterly.com). [o](#)