AVCAL

preqin

2018 YEARBOOK

AUSTRALIAN PRIVATE EQUITY & VENTURE CAPITAL ACTIVITY REPORT

NOVEMBER 2018

CONTENTS

ABOUT THE REPORT

The report tracks activity in the Australian private equity and venture capital industry, across both active and non-active private equity and venture capital firms. It is based on data contained in the Preqin database, as well as on-the-ground information collected by both Preqin and AVCAL. Report content has been co-authored by AVCAL and Preqin.

ABOUT AVCAL

The Australian Private Equity and Venture Capital Association Limited (AVCAL) is a national association which represents the private capital investment industry. AVCAL's members comprise most of the active private equity and venture capital firms in Australia, as well as the key institutional investors into private equity and venture capital funds. These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies.

For further information, please contact:

AVCAL Research Team
Telephone: +61 2 8243 7000
Email: research@avcal.com.au

avcal.com.au

ABOUT PREQIN

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests. Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, for a range of activities including fundraising, investor relations, asset allocation, fund manager selection and business development, and its data and statistics are regularly quoted by the financial press. Preqin is an independent business established in 2003, with over 500 staff based in London, New York, San Francisco, Singapore, Hong Kong, Guangzhou and Manila.

For further information, please contact:

Preqin Asia
Telephone: +65 6305 2200
Email: info@preqin.com

preqin.com

FOREWORD

We are very pleased to present the 2018 Yearbook Report, which for the first time has been jointly produced and published by AVCAL and Preqin. In late 2018, Preqin became AVCAL's research partner of choice in collecting industry data on funds, investments and exits across the private equity and venture capital sector in Australia. The new partnership between AVCAL and Preqin is an important step in the development of how industry data is tracked, recorded and disseminated to industry participants and the business community in Australia.

This has been an eventful year for the global investment community: US-China trade tensions, rising interest rates, a looming Brexit deadline, emerging markets contagion and slowing growth in China are just some of the challenges faced by investors around the world. However, even in the midst of that Australia has remained resilient and we see 2018 shaping up to be another strong year of activity in the PE and VC industry. Two measures in particular are encouraging indications that Australia's private capital industry will continue to thrive and invest in new and existing portfolio businesses.

Firstly, current fundraising levels for 2018 stand at $5.4bn and the annual figure for the current year looks set to surpass the highest levels seen in the last 10 years. Secondly, assets managed by GPs on behalf of their investors have grown to almost $26bn as of December 2017, the third highest figure on record.

On the investment side, total PE investment in dollar terms has been softer than in prior years. However, VC investment levels both in 2017 and the first half of 2018 have been stronger than ever as VC fund managers deploy the large amount of capital that has been raised by the sector over recent years.

On the regulatory front, the Australian government continues to support the industry through improvements to the foreign investment framework and analysis of how the structure and efficiency of Australia's $2.6tn accumulated pension savings can be improved into the future. The government also encourages investors to participate in the vibrant VC sector – in particular, those supporting fintech and biomedical innovations – through various funding and incentive programs.

We would like to thank all the industry participants who have contributed their data to the report – your support ensures that we can report on the industry as comprehensively as possible. Private equity and venture capital play a vital role not only in delivering returns to super funds and other major investors, but also in furthering the development of the wider economy in Australia and globally. AVCAL and Preqin are both very pleased to play an important role in the industry with this 2018 Yearbook Report.

Yasser El-Ansary
Chief Executive, AVCAL

Mark O'Hare
CEO, Preqin

EXECUTIVE SUMMARY

Activity in the private equity (PE) and venture capital (VC) industry in Australia in 2018 has seen a greater focus on fundraising, as GPs look to attract capital and deploy it in attractive investment opportunities over the coming years.

The industry's assets under management continue to grow, reaching $25.8bn as of December 2017. Dry powder levels have risen to $9.2bn, which is the highest level seen since December 2011. This growth in assets under management has placed Australia's PE and VC industry in sixth spot in the Asia-Pacific region in terms of industry size, behind countries such as China, Japan and India.

This has been driven by a very strong year of fundraising for Australia-based PE and VC fund managers in 2018. The amount of aggregate capital raised by the industry, at $5.4bn, is the highest total amount raised since 2008 and reflects a consistent theme of higher levels of private markets fundraising across developed markets.

Investment activity has been slower for PE in 2017 and H1 2018. The latest available figures for H1 2018 show that just 24 deals were completed for a total value of $3.5bn.

However, growth in VC investment levels remains strong. Based on the current run rate of VC investment deals, 2018 may surpass the record $962mn in VC investment across 135 deals recorded in 2017.

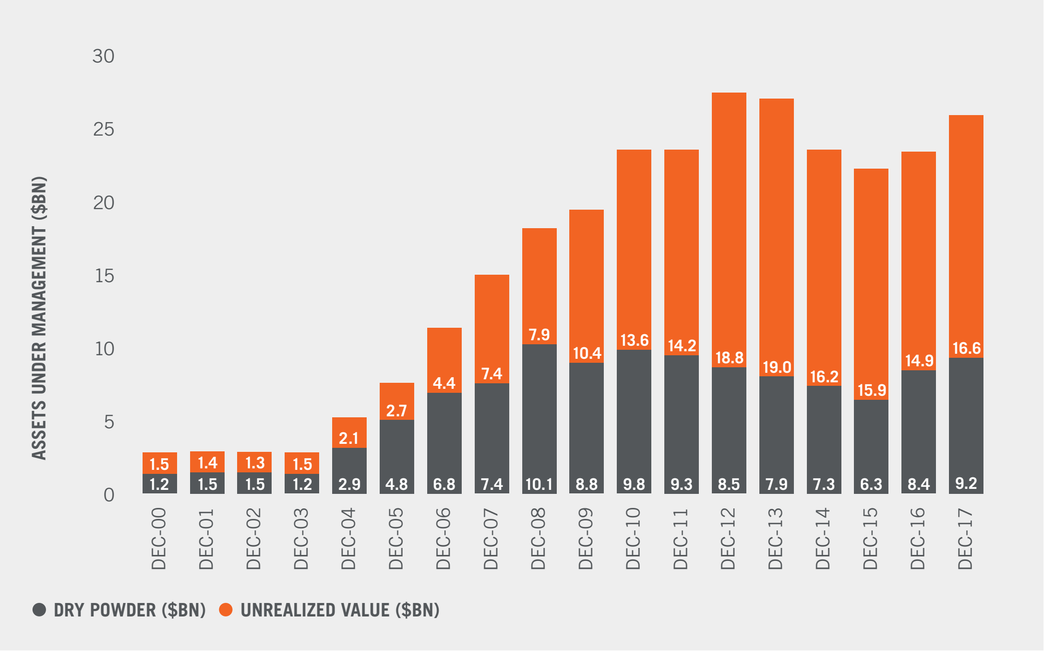
Exit activity has been lower in terms of the aggregate value of PE exits completed in 2017 and H1 2018 compared to the prior two years, and there has also been a decrease in the number of IPOs as a proportion of total buyout exits in Australia over the past two years.

01 ASSETS UNDER MANAGEMENT

ASSETS UNDER MANAGEMENT

Assets under management (AUM) held by PE and VC fund managers based in Australia have been rising steadily, reaching $25.8bn as at December 2017 – now 3.5 times higher than in 2005. The majority (64%) of this total is held in unrealized value, indicative of the amount of capital yet to be distributed back to investors. Capital overhang, which represents the ratio of year-end dry powder levels to the total capital called in the previous year, has risen to a ratio of three-to-one in Q4 2017, an increase of 50% from the previous year. This indicates that Australian GPs still have plenty of capital to put to work and market watchers are eager to see which sectors they deploy it to.

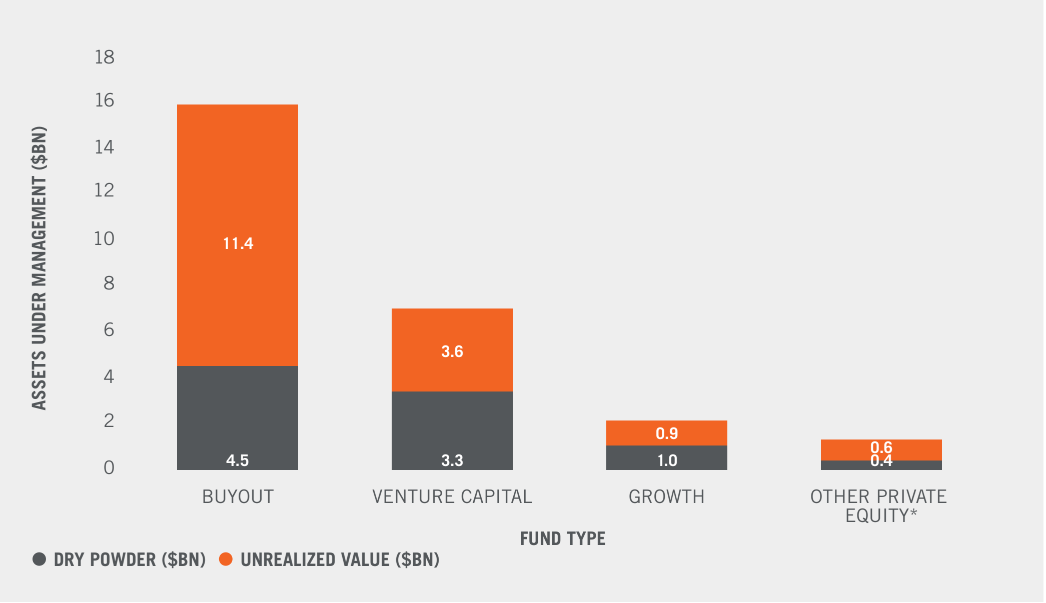
FIGURE 1:
Australia-Based Private Equity & Venture Capital Assets under Management, 2000 – 2017
(As at December 2017)



Assets by Fund Type

Australian buyout funds account for the highest amount of AUM ($15.9bn) in the country, more than VC ($6.9bn), growth ($1.9bn) and other* PE fund types ($1.0bn) combined. This is in spite of both VC and growth strategies experiencing exponential growth in the past few years: the AUM of VC and growth funds have increased 2.2 times and 2.3 times respectively since 2015.

FIGURE 2:
Australia-Based Private Equity & Venture Capital Assets under Management by Fund Type
(As at December 2017)



*Other Private Equity includes balanced, co-investment, direct secondaries and turnaround strategies

ASSETS UNDER MANAGEMENT (CONTINUED)

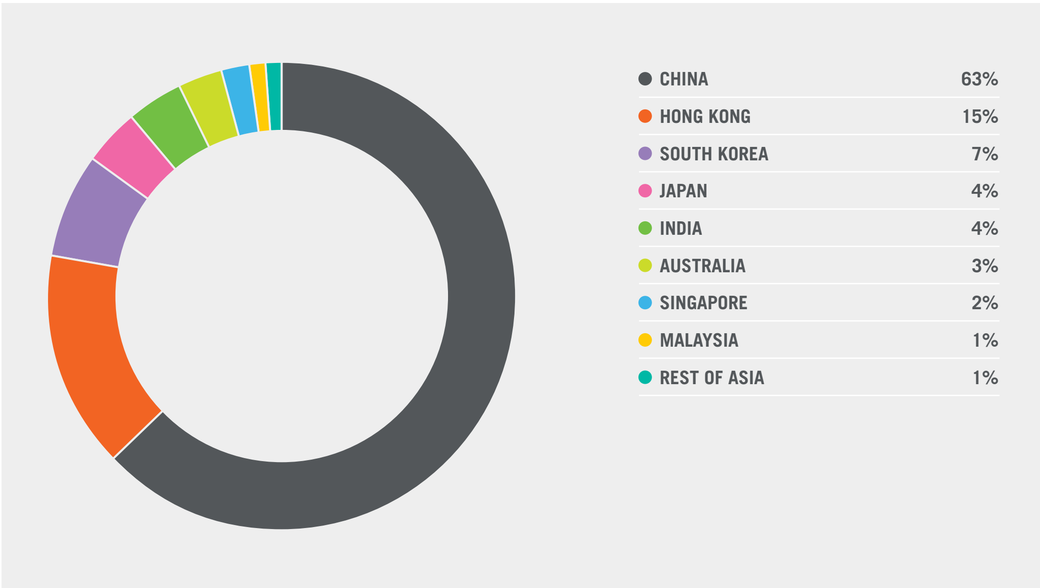
Australia's Regional Ranking

Within the Asia-Pacific region, Australia-based GPs collectively rank sixth in terms of AUM, behind the larger markets in the region such as China, Japan and India. However, Australian fund managers returned the most capital back to investors among the top six countries in 2017. Although Australia-based GPs have distributed more capital than they have called up, it appears that this momentum could be slowing. Net cash flows have been decreasing for three consecutive years, with full-year distributions in 2017 by Australia-based fund managers reaching $1.1bn.

TABLE 1: Asia and Australia-Based Private Equity & Venture Capital Industry Assets under Management

COUNTRY	PROPORTION OF AUM
China	63%
Hong Kong	15%
South Korea	7%
Japan	4%
India	4%
Australia	**3%**
Singapore	2%
Malaysia	1%
Rest of Asia	1%

FIGURE 3: Proportion of Asia- and Australia-Based Private Equity & Venture Capital Industry Assets under Management



02 FUNDRAISING

FUNDRAISING

The fundraising activity of Australia-based PE and VC fund managers in 2018 looks set to surpass the levels seen in many recent years. Ten funds have secured $5.4bn so far in 2018 (as at September), an aggregate capital figure not seen since 2008.

FIGURE 4:
Annual Australia-Based Private Equity Fundraising, 2007–2018 YTD (As at September 2018)

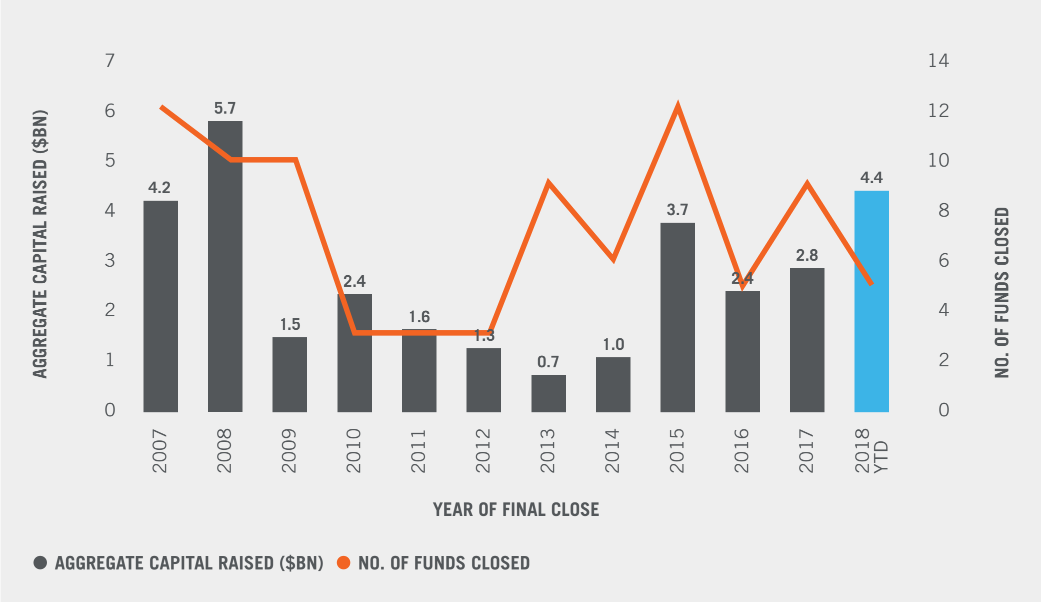
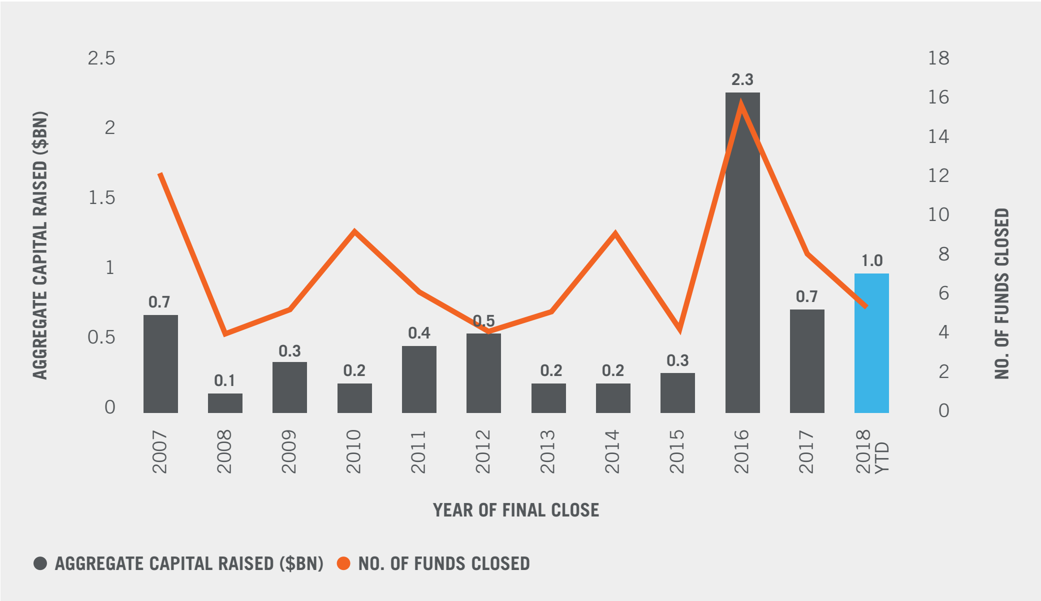


FIGURE 5:
Annual Australia-Based Venture Capital Fundraising, 2007–2018 YTD (As at September 2018)



This growth is attributed to the fundraising efforts of larger PE and VC funds, as momentum in the mid-market deal segment within Australia has picked up, continuing the trend observed in recent years. Notably, 67% of the PE and VC funds closed in 2018 so far secured over $200mn in capital per fund, compared with 38% of funds that held a final close in 2017.

FUNDRAISING (CONTINUED)

Buyout Strategies Dominate

Buyout strategies continue to dominate the Australian PE and VC fundraising landscape. Since 2012, buyout funds have secured more capital ($13.6bn) than all other fund types combined ($7.8bn). As seen in Table 2 below, four of the largest vehicles closed in 2018 were buyout funds. They have raised an aggregate of $4.3bn in 2018, the highest since 2008. This includes BGH Capital Fund I, which raised $2.6bn, the largest fund managed by an Australia-based manager closed in 2018 so far. The BGH fund predominantly focuses on investments across a range of industries in Australia and New Zealand.

FIGURE 6:
Australia-Based Private Equity & Venture Capital Fundraising by Fund Type, 2012 – 2018 YTD (As at September 2018)

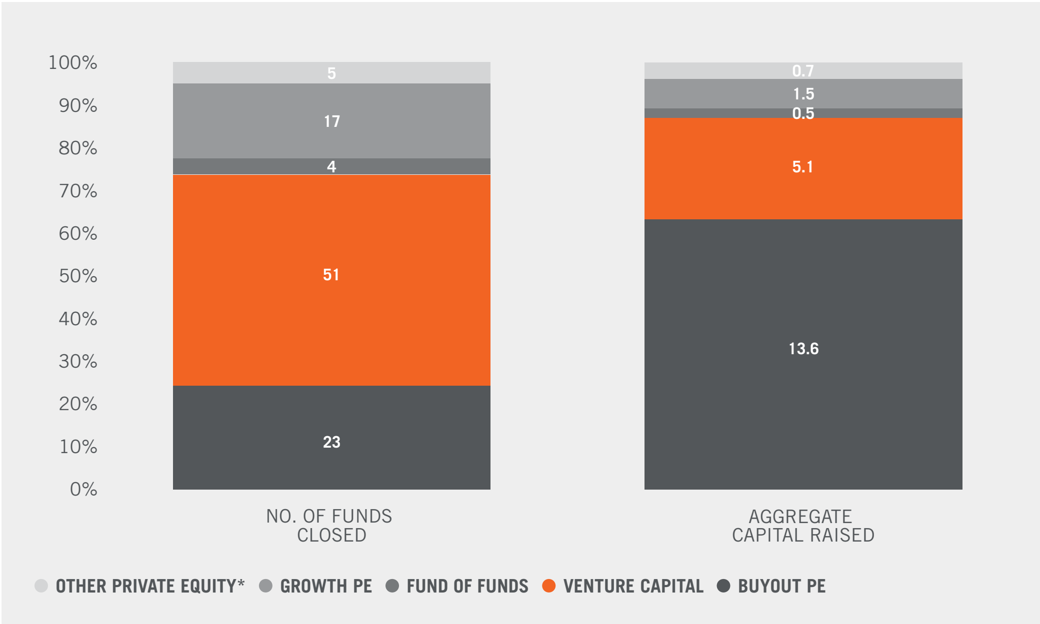


TABLE 2:
Five Largest Australia-Based Private Equity & Venture Capital Funds Closed in 2018

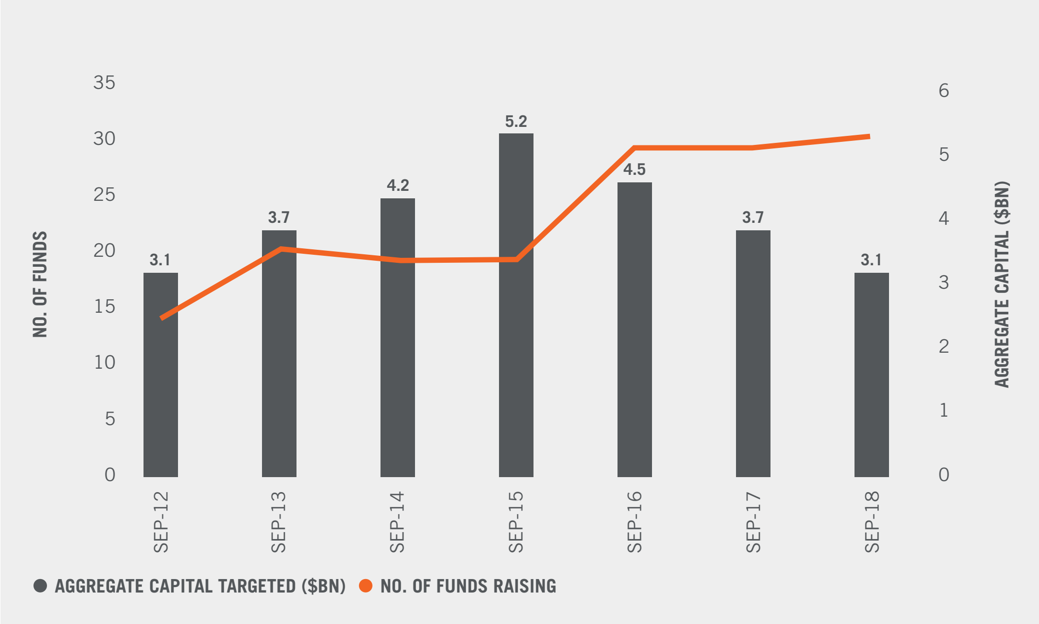
FUND	FIRM	FUND TYPE	FUND SIZE (MN)	FINAL CLOSE DATE
BGH Capital Fund I	BGH Capital	Buyout	$2,600mn	May-18
Crescent Capital Partners VI	Crescent Capital Partners	Buyout	$800mn	Aug-18
Telstra Ventures Fund II	Telstra Ventures	Venture Capital	$675mn	Jul-18
Adamantem Capital I	Adamantem Capital	Buyout	$600mn	Mar-18
Anacacia Private Equity III	Anacacia Capital	Buyout	$300mn	Jun-18

FUNDRAISING (CONTINUED)

Funds in Market

There are 30 Australia-based funds currently in market, the highest number recorded since 2012, with the majority (67%) being VC fund vehicles. These funds are seeking a total of $3.1bn in investor commitments, the lowest amount of aggregate capital targeted at this point in the year since 2012. Compared to 2017, the 2018 figures represent a 15% decrease in capital targeted by Australia-based PE and VC fund managers, although the number of funds in market has risen slightly by 3% compared to the previous year.

FIGURE 7:
Australia-Based Private Equity & Venture Capital Funds in Market over Time, 2012 – 2018 YTD (As at September 2018)



03 DEALS & EXITS

DEALS & EXITS

The private markets investment environment in Australia has seen mixed activity over the last several years, as a greater focus on fundraising, a competitive market environment, and macroeconomic uncertainty have meant that many GPs are waiting to put capital to work in the most attractive deals and investments. PE investment deals have been lower, both in terms of aggregate deal value and the number of deals completed. The latest available figures for H1 2018 show that just 24 deals were completed for a total value of $3.5bn.

Meanwhile, VC investment activity has been increasing in recent years, particularly in terms of the amount of capital being invested by VC fund managers in startups and other early stage companies. Close to $1.5bn in VC deals by dollar value has been recorded across 204 deals over the most recent 18-month period – $962mn in 2017 and $495mn in H1 2018.

FIGURE 8:
Private Equity-Backed Buyout Deals in Australia, 2008 – H1 2018

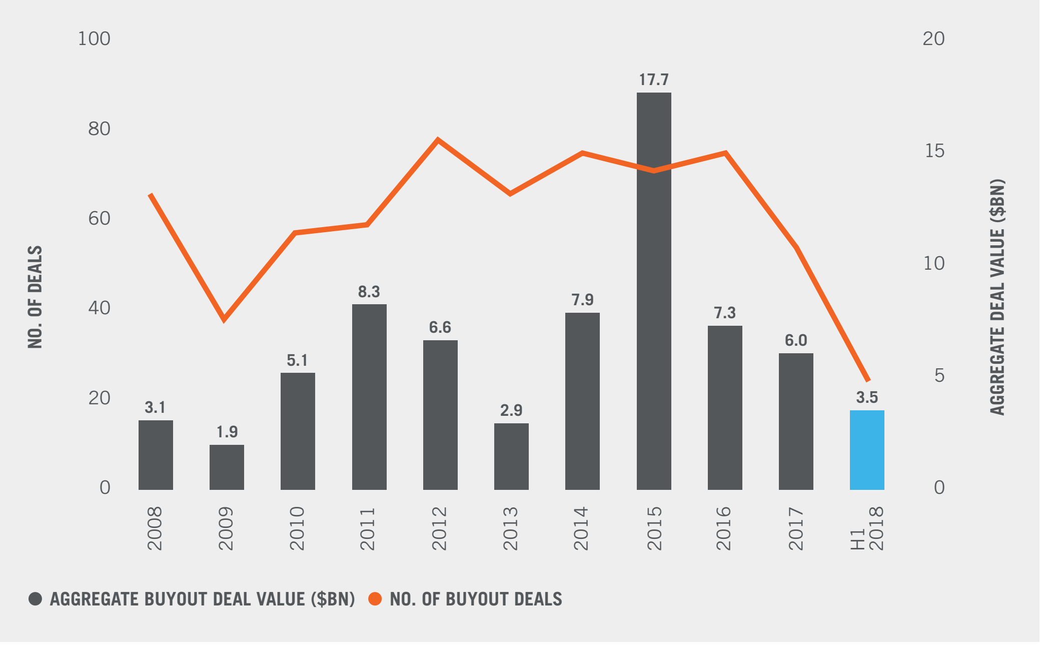
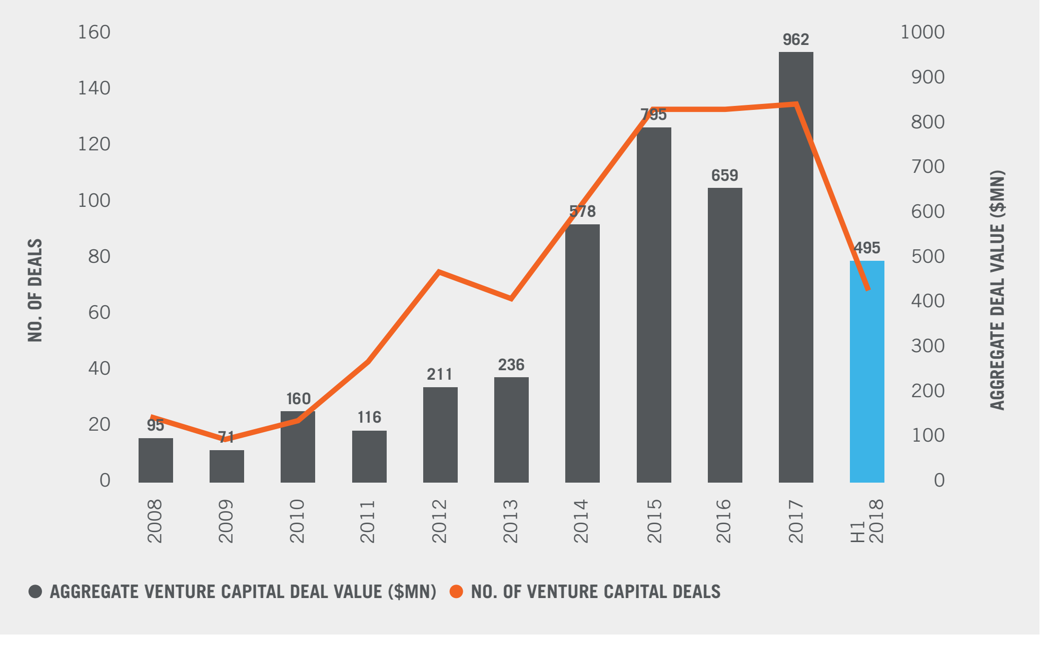


FIGURE 9:
Venture Capital Deals* in Australia , 2008 – H1 2018



*Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

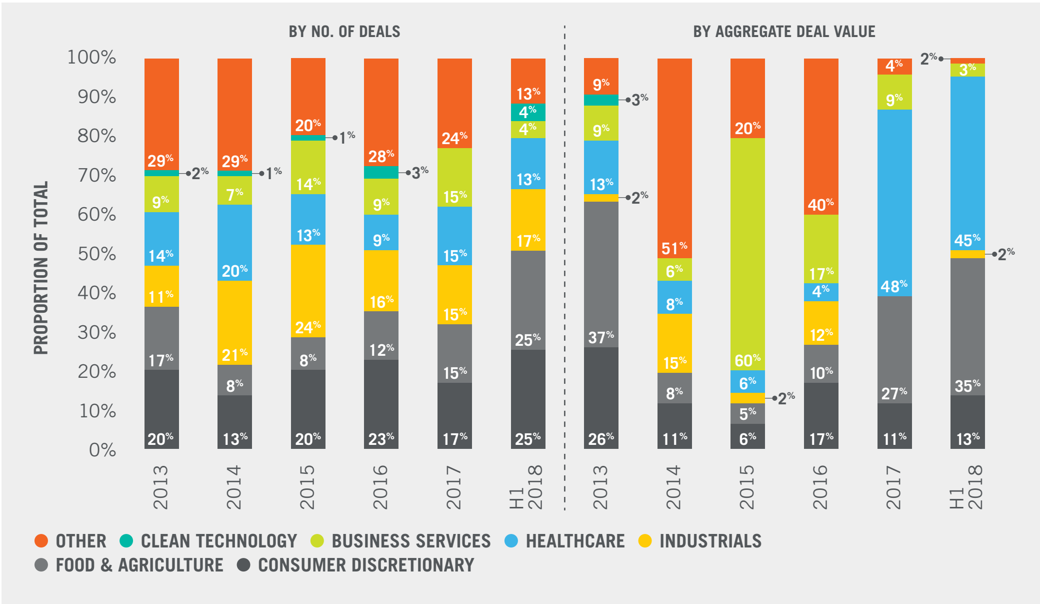
DEALS & EXITS (CONTINUED)

Buyout Deal Activity

Since 2008, there have been 662 PE-backed buyout deals in Australia completed for an aggregate value of $70bn. 2015 was the most active year in terms of deal value since 2008, as aggregate buyout deal value peaked at $17.7bn for that year.

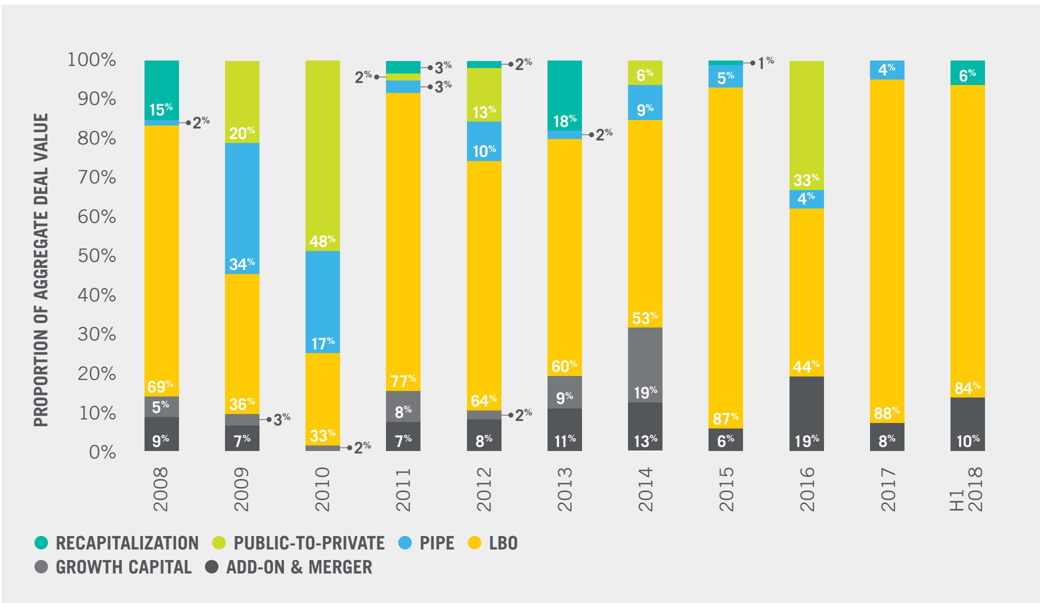
In terms of the industry sectors which are seeing greater levels of PE investment, the largest proportion of buyout deals completed since 2016 has been in the consumer discretionary sector. Consumer discretionary represented 23%, 17% and 25% of the total number of private equity-backed buyout deals in Australia in 2016, 2017 and H1 2018 respectively.

FIGURE 10:
Private Equity-Backed Buyout Deals in Australia by Industry, 2013 – H1 2018



There has also been a significant increase in the proportion of aggregated deal value accounted for by the healthcare sector, up from 4% in 2016 to 48% in 2017. This was mainly due to two large deals in 2017: the buyout of iNova Pharmaceuticals by Carlyle Group and Pacific Equity Partners, valued at $1.23bn, and the buyout of Icon Cancer Care by Goldman Sachs Australia, Pagoda Investment, and QIC Global Private Equity for $1.1bn. This trend continued into 2018 with Permira's acquisition of I-Med Network Ltd., which occurred in February for $1.25bn.

FIGURE 11:
Proportion of Aggregate Value of Private Equity-Backed Buyout Deals in Australia by Investment Type, 2008 – H1 2018

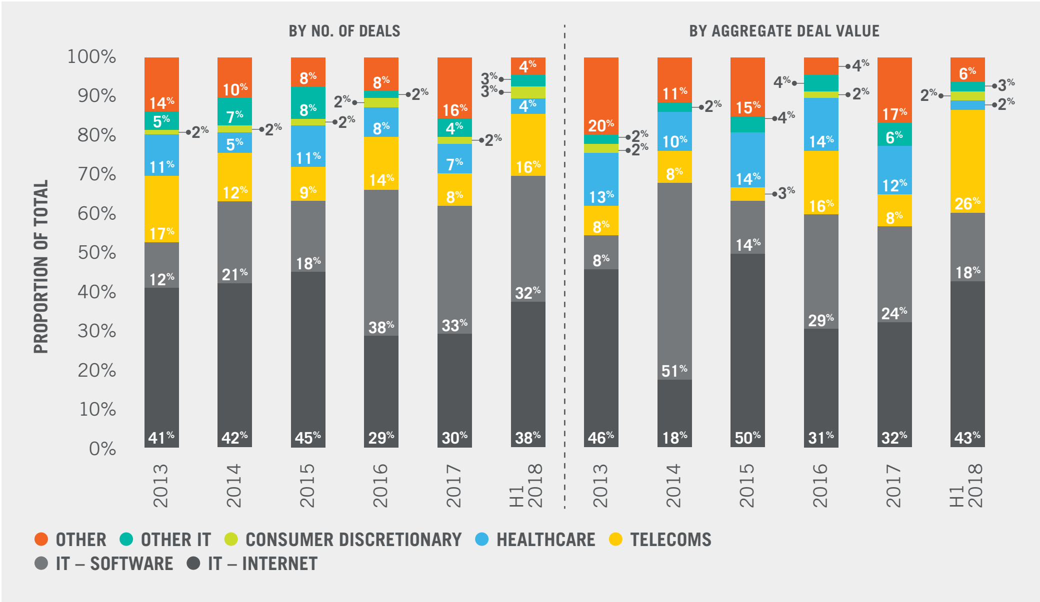


DEALS & EXITS (CONTINUED)

VC Deal Activity

There have been 812 Australia-based VC financings recorded since 2008 with an aggregate value of $4.4bn invested in Australian early stage companies. The IT sector has been the most dominant sector in the Australian VC landscape, with internet and software deals accounting for more than half (53%) of all VC deals in Australia since 2013. This figure has continued to climb since then, reaching 70% in H1 2018. Both the telecoms and healthcare sectors have also featured as smaller but nonetheless important sectors for VC investment, on average accounting respectively for 12% and 11% of VC deal value since 2013.

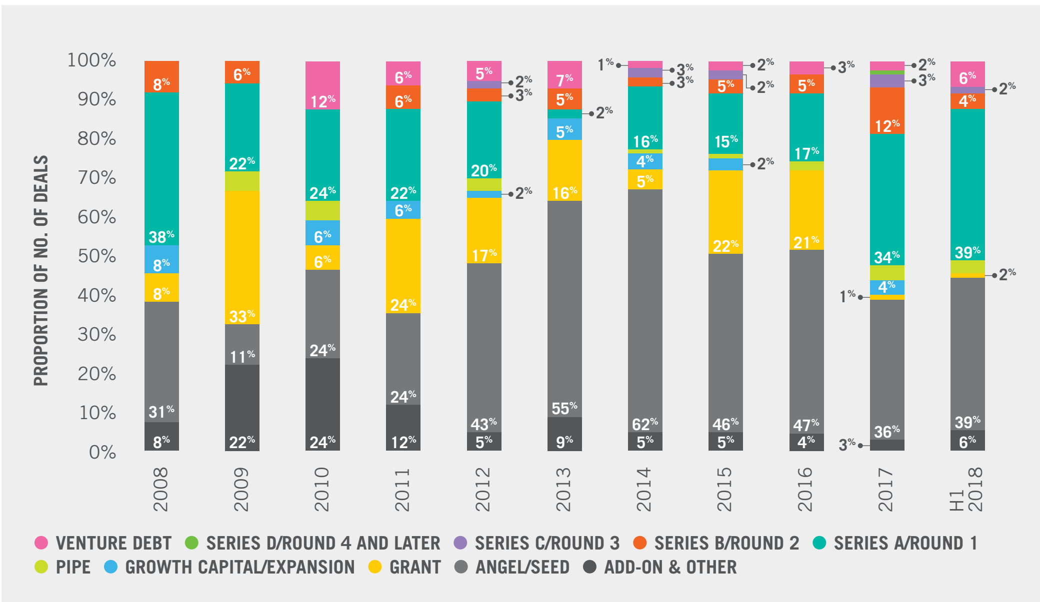
FIGURE 12: Venture Capital Deals* in Australia by Industry, 2013 – H1 2018



*Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

In terms of deal stages, angel and seed stage deals were the most prominent form of VC financing, representing 55% and 62% of all Australian VC deals in 2013 and 2014 respectively. However, this figure has decreased in recent years to 47% in 2016 and 36% in 2017, with Series A rounds accounting for 34% of VC deals in 2017 and 39% of VC deals in H1 2018. Venture debt deals, while only accounting for 2% of VC deals in 2017 and 6% in H1 2018, are becoming an increasingly important source of early stage funding, making up 27% of deals by value in 2017 and 53% in H1 2018. This increase was driven in part by Uber car rental startup Splend raising US$220mn in debt financing in January 2018.

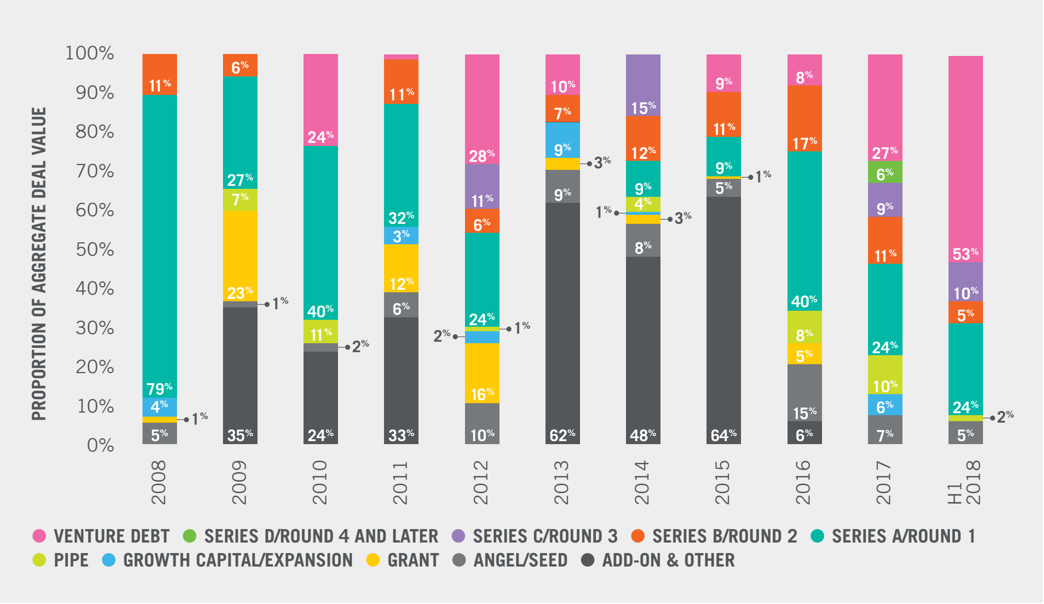
FIGURE 13: Proportion of Venture Capital Deals in Australia by Stage, 2008 – H1 2018



DEALS & EXITS (CONTINUED)

In H1 2018, VC investment reached almost $500mn across 69 deals. Some of the largest financings for this period included the Series C $60mn round raised by SafetyCulture, which was led by Tiger Global Management and with participation from Blackbird Ventures, Index Ventures, and Morpheus Ventures. In the same period, US$40mn of venture financing was raised by Canva – this round was led by Sequoia Capital, with participation from Blackbird Ventures and Felicis Ventures. Canva reported revenues of $23.5mn in the 12 months ended June 2017 and by some estimates is currently valued at $1.4bn.

FIGURE 14:
Aggregate Value of Venture Capital Deals in Australia by Stage, 2008 – H1 2018



DEALS & EXITS (CONTINUED)

Exit Activity

Looking at PE exits, activity has been slower in terms of the aggregate value of exits completed. 2017 saw $8.1bn of PE exits completed, down slightly from 2015 ($8.9bn) and 2016 ($8.6bn) levels.

There has also been a decrease in the number of IPOs as a proportion of total buyout exits in Australia over the past two years. IPOs represented 51% of total buyout exits in 2015; however, this figure fell to 35% in 2016 and 17% in 2017. Conversely, there has been an increase in trade sales as a proportion of total buyout exits in Australia. Trade sales represented 34% of the total Australian buyout exits in 2015 and this figure increased to 48% and 63% in 2016 and 2017 respectively. Notable trade sale exits for 2016 and 2017 include KKR's July 2016 sale of its 45% stake in GenesisCare to China Resources Capital Management and Macquarie Capital for $1.7bn, and the sale of Alinta Energy by TPG Capital to Chow Tai Fook Enterprises for over $4bn in March 2017.

FIGURE 15:
Aggregate Deal Value ($bn) of Total Buyout Exits in Australia (2014 – 2018 H1)

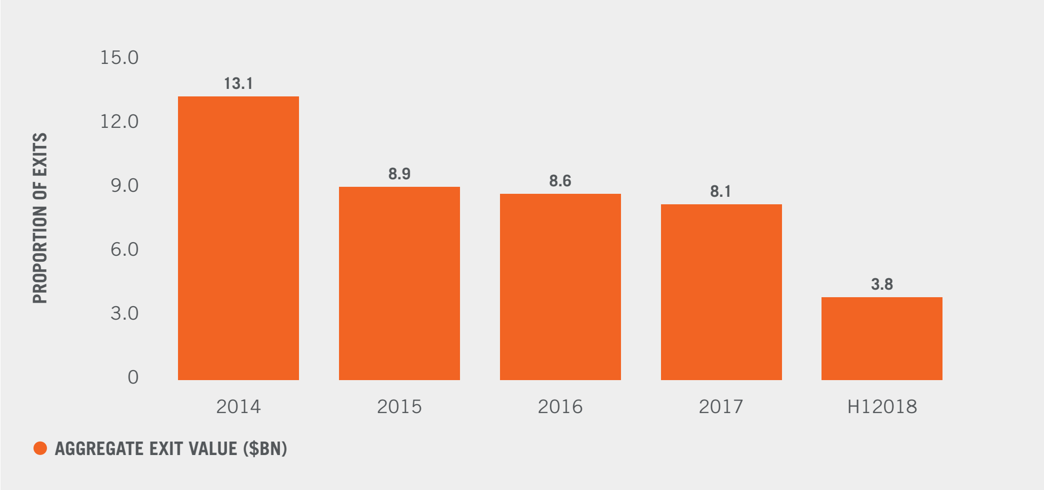
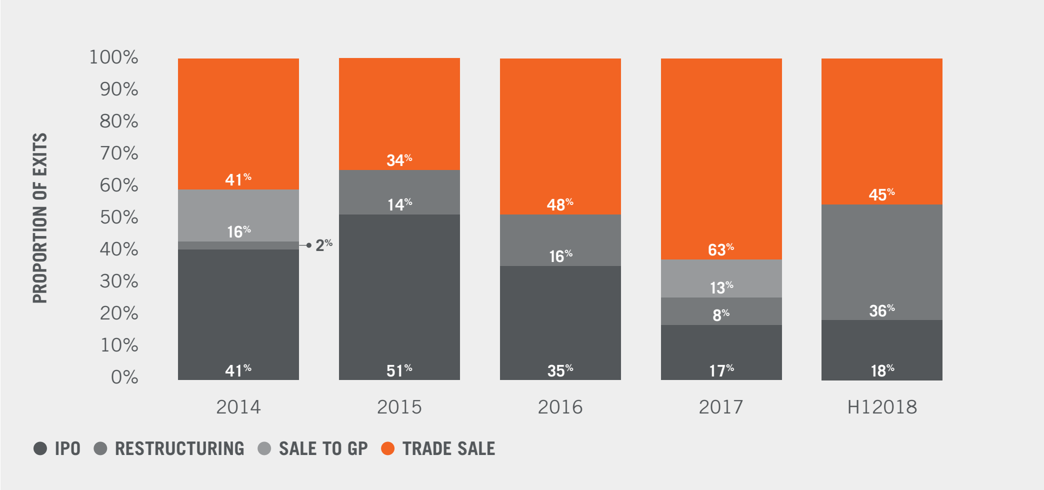


FIGURE 16:
Proportion of Total Buyout Exits in Australia, 2014 – H1 2018



NOTES & METHODOLOGY

The information contained in this report is based on data from the Preqin database, as well as on-the-ground information collected by both Preqin and AVCAL.

Data, figures, and time periods may not match those presented in prior years' AVCAL Yearbook Reports, as transitionary changes to period reporting are managed in the current period's report.

— Report content has been co-authored by AVCAL and Preqin.
— All annual figures correspond to calendar year periods.
— All currency units are denominated in Australian dollars unless otherwise stated.

Dollar figures in the Deals & Exits section have been calculated by aggregating individual deal values in US dollars on an annual basis and converting to Australian dollars based on the average annual exchange rate for each calendar year. Exchange rate data has been sourced from the Reserve Bank of Australia.

GLOSSARY

TERM	DEFINITION
Balanced	A firm or fund that invests in companies at all stages of development, from early stage to buyout.
Buyout	A firm or fund that invests in established companies, often with the intention of improving operations and/or financials. The firm or fund will typically acquire the whole, majority or a controlling stake in the company and investment often involves the use of leverage.
Co-Investment	Minority investments made alongside a buyout, recapitalization or other transaction; a non-controlling investment.
Distressed Debt	A firm or fund that buys the debt of companies that have either filed for bankruptcy or appear likely to do so in the near future. As part of the company reorganizations, distressed debt firms often forgive the debt obligations of the company, in return for enough equity in the company to compensate.
Early Stage VC	A venture firm or fund that invests only in the early stage of a company life. Can be either Seed or Start-up.
Expansion/Late Stage VC	A firm or fund that invests in companies towards the end of the venture stage cycle. Provides capital injections for expansion into a position of stable profit streams. Typical with venture deals, expansion/late stage funds take short- to mid-term, minority positions.
Fund of Funds	A firm or fund that invests in a number of private equity partnerships.
Growth	A firm or fund that typically takes significant minority positions in companies without the use of leverage. Targets are profitable, but still maturing, investee companies with significant scope for growth. Investment horizons are mid to long term, similar to those seen with buyout funds.
Infrastructure	A firm or fund that typically invests in large-scale infrastructure projects in transportation, regulated industries such as power and water, telecom, and social infrastructure.
LBO	Leveraged Buyout. A transaction whereby a company is acquired using a significant amount of borrowed money to meet the cost of acquisition.
Mezzanine	Debts that incorporate equity-based options, such as warrants, with a lower-priority debt, often used to finance acquisitions and buyouts.
Natural Resources	A firm or fund that invests in companies sourcing various commodities, including energy products, agriculture products and land holdings, precious metals and industrial metals.
PIPE	Private Investment in Public Equity. An investment made by a PE firm into a public company, which remains public post-investment.
Public to Private	A transaction where a company is bought from the stock exchange and de-listed by the PE firm or fund.
Recapitalization	An investment which typically includes the restructuring of debt and equity, with a view to stabilizing the company's capital structure.
Restructuring	A transaction where significant modification is made to the debt, operations or structure of a company.
Secondaries	A firm or fund that acquires stakes in private equity funds from existing limited partners.
Special Situation	A firm or fund that focuses on complex situations, such as project finance or one-time opportunities resulting from government regulations, with the goal of resolving the situation in an attempt to restore a company's value.
Turnaround	A firm or fund that aims to revitalize companies with poor performance or experiencing trading difficulties.