



2019

YEARBOOK

Australian Private Equity & Venture Capital Activity Report

May 2019

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● The voice of private capital

 AUSTRALIAN
INVESTMENT
COUNCIL

 preqin

ABOUT THE REPORT

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



About the Australian Investment Council

The Australian Investment Council is the voice of private capital in Australia. Private capital investment has played a central role in the growth and expansion of thousands of businesses, which when combined represents a multibillion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include: private equity, venture capital and private credit funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers.

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About Preqin

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via an online data platform, publications and bespoke data requests. Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible across the following asset classes: private equity, venture capital, hedge funds, real estate, infrastructure, private debt, natural resources and secondaries. More than 73,000 industry professionals 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 at industry conferences and in the global financial press.

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Data Submission

Preqin is appointed as the Australian Investment Council's Official Data Partner and the source of data since 2018. We encourage all GP members to submit performance data to Preqin to further enhance the transparency and robustness of the Australian economy. To contribute data, please visit: preqin.com/sharedata

Member Benefits

Australian Investment Council members are entitled to an exclusive discount on any new subscriptions with Preqin. To find out more, please contact: rcollins@preqin.com

FOREWORD

We are very pleased to present the latest Yearbook Report, jointly produced and published by the Australian Investment Council and Preqin. The report covers activity data on funds, investments and exits across the private equity & venture capital industry in Australia. This continues the partnership that Preqin and the Australian Investment Council have developed in tracking, recording and disseminating industry data to market participants and the business community in Australia.

Australia faces another interesting and somewhat challenging year in 2019. Domestically, a federal election has just been held, and the repercussions of the royal commission into banking and financial services are working their way through the financial system and wider economy. Meanwhile, risks of a global slowdown – and how central banks respond – weigh on equity markets, Brexit remains unresolved, and trade tensions between the world's two largest economies are high.

Amid these testing circumstances, Australian unemployment remains low and the domestic economy continues to grow. This backdrop provides a strong set of fundamentals for investors, including those that are actively looking for opportunities in private capital markets.

The industry figures for the full 2018 calendar year presented in this report show strong levels of activity in private equity & venture capital in Australia. Firstly, fundraising hit a record high of \$6.6bn. This has helped to boost the dry powder available for investment to over \$11bn. Secondly, investment activity also experienced a significant increase across both the private equity and venture capital sectors compared to the 2017 annual period.

These positive trends point to a confident investor outlook, as both fund managers and institutional investors deploy increasing amounts of capital into funds and, importantly, businesses that employ thousands of people across every sector of the economy.

Lastly, the scale of assets managed by our industry, now standing at just over \$30bn, is a testament to solid institutional support for private capital investing. We expect that support to continue to grow as the industry in Australia develops and matures further.

We would like to thank all 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. Preqin and the Australian Investment Council are both very pleased to play an important role in the industry with the publication of this report.



Yasser El-Ansary
Chief Executive, AIC



Mark O'Hare
CEO, Preqin

EXECUTIVE SUMMARY

\$30bn

Industry's AUM as at June 2018

\$6.6bn

in aggregate capital secured by 17 PE and VC funds in 2018

\$2.2bn

total deal value in the VC sector in 2018

Activity in the private equity (PE) & venture capital (VC) industry in Australia in the 2018 calendar year has seen higher levels of fundraising and investment compared to 2017. This points to a confident outlook for the private capital market, as both fund managers and institutional investors deploy increasing amounts of capital into funds and businesses.

The industry's assets under management (AUM) stand at just over \$30bn as at June 2018, an all-time record. Australia-based buyout funds account for the highest amount of AUM at \$20bn. Industry-wide dry powder stands at a healthy \$11bn.

In the 2018 calendar year, the fundraising activity of Australia-based PE and VC fund managers hit a record high in terms of capital raised, with \$6.6bn in aggregate capital secured by 17 PE and VC funds. PE funds raised a total of \$5.3bn across eight funds, while VC funds raised \$1.3bn across nine funds. Buyout funds have been the dominant segment for fundraising since 2012, having secured \$14.5bn, more than double the amount of capital raised by all other fund strategies combined throughout these years (\$6.9bn).

Following several years of strong fundraising, the aggregate capital targeted by PE and VC funds in market is lower as at February 2019 compared to the same point in both 2017 and 2018.

Investment activity across Australia's private capital sector in 2018 experienced a significant increase in both the PE and VC markets. This marks a new turn from the declining trend seen in the market since 2016. This positive trend in investment activity has been driven by sufficient dry powder levels, the low-risk environment and the attractive fundamentals of many privately backed companies in Australia for both domestic and foreign investors. The VC sector had an especially strong year in 2018 as total deal value more than doubled from 2017 to a record \$2.2bn.

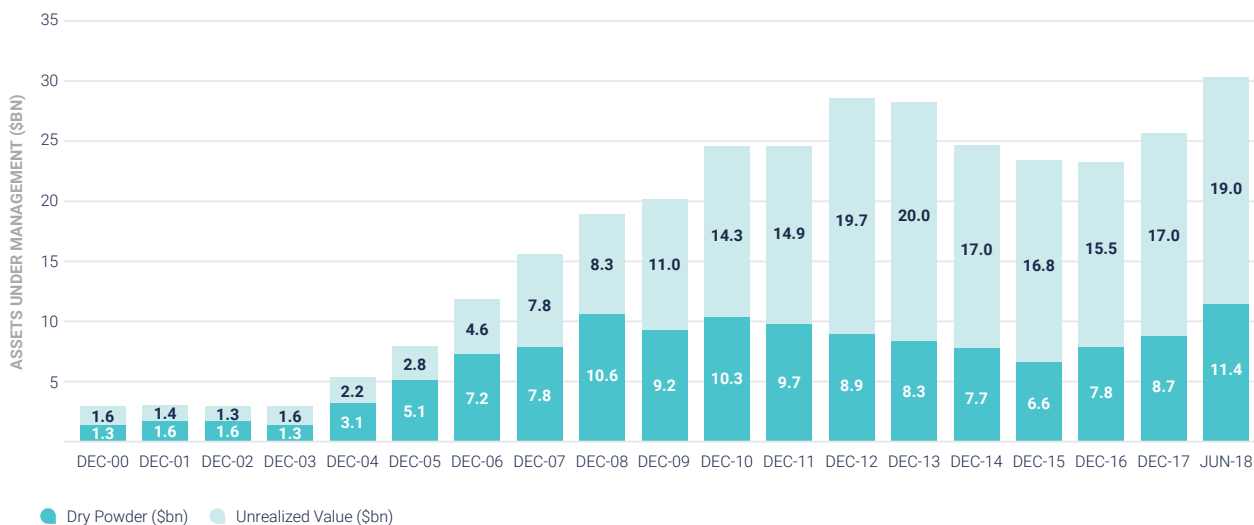
Looking at divestment activity, aggregate buyout exit value made a modest recovery in 2018 to \$9.2bn, from a low of \$8.1bn in 2017, stemming the consecutive drop in aggregate exit value since 2014. Trade sales were the favoured exit pathway, and represented a record 73% of total buyout exits in Australia in 2018.



ASSETS UNDER MANAGEMENT

ASSETS BY FUND TYPE

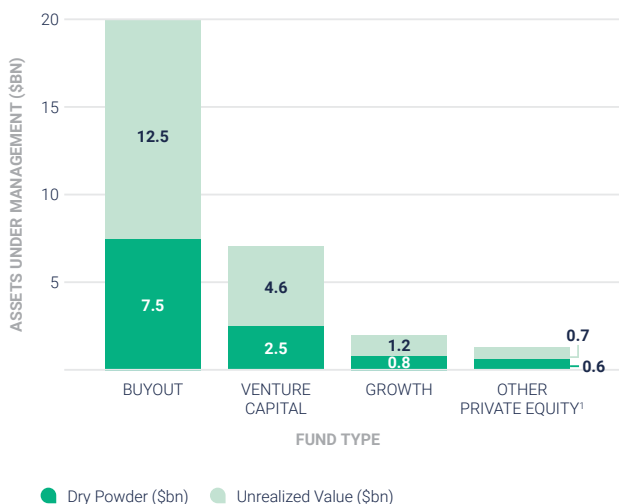
Figure 1: Australia-Based Private Equity & Venture Capital Assets under Management, 2000 - 2018 (As at June 2018)



AUM held by PE and VC fund managers based in Australia has been rising at an increasing rate since December 2016, reaching an all-time high of \$30bn as at June 2018. The 18% increase in AUM from December 2017 to June 2018 is greater than any annual change observed since 2011. The majority (\$19bn) of this total is held in unrealized value, indicating that there is a significant amount of capital yet to be distributed back to investors. Furthermore, fundraising was clearly strong over 2018, as industry dry powder has similarly increased by 31% since December 2017 to stand at a healthy \$11bn as at June 2018.

Australia-based buyout funds hold the greatest AUM (\$20bn) as at June 2018, more than VC (\$7.1bn), growth (\$2.0bn) and other PE¹ fund types (\$1.3bn) combined. VC funds have recorded the highest AUM growth in recent years across the different fund types, with total assets more than doubling from \$3.5bn in December 2016 to \$7.1bn.

Figure 2: Australia-Based Private Equity & Venture Capital Assets under Management by Fund Type (As at June 2018)

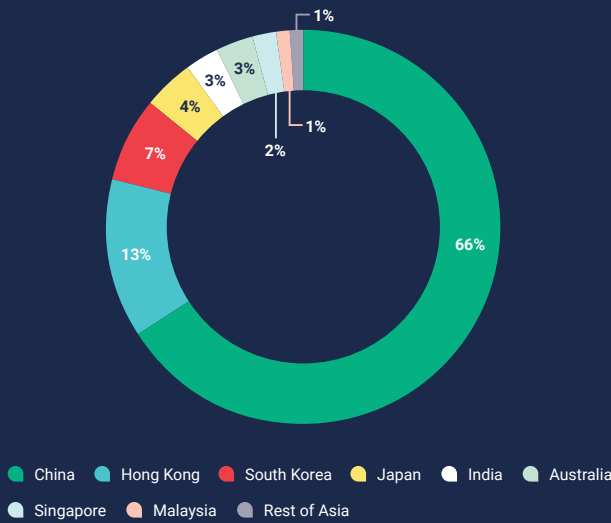


¹ Other Private Equity includes Balanced, Co-Investment, Direct Secondaries and Turnaround funds.

ASSETS UNDER MANAGEMENT

AUSTRALIA'S REGIONAL RANKING

Figure 3: Asia-Based Private Equity & Venture Capital Assets under Management by Location (As at June 2018)



Australia-based GPs collectively hold 2.8% of total PE & VC AUM for the Asia-Pacific region as at June 2018, down from 3.0% in December 2017. This was largely a result of China's share increasing from 63% to 66% over the same period. Nevertheless, Australia maintains the sixth largest PE & VC industry in the Asia-Pacific region.

Although net distributions have been positive for Australia-based GPs since 2013, momentum has slowed. Since 2014, net distributions have decreased each year, falling from a high of \$5.0bn in 2014 to \$1.3bn in 2017. A net total of \$1.2bn has been distributed to investors in H1 2018, however, which means distributions for full-year 2018 are likely to be higher compared to 2017.

Figure 4: Australia-Based Private Equity & Venture Capital: Annual Capital Called up, Distributed and Net Cash Flow, 2008 - H1 2018



FUNDRAISING

PE & VC FUNDRAISING GAINS TRACTION

Australia-based PE & VC fundraising achieved record highs in 2018, with managers securing an aggregate \$6.6bn in capital via 17 funds. The average size of PE funds closed was noticeably up by 117% compared to the previous year, suggesting that fund managers are raising larger vehicles to capitalize on the healthy deal pipeline in Australia.

The VC fundraising market also showed signs of improvement in 2018, closing the year with \$1.3bn in capital raised. This is the highest amount on record, and it is the first year where aggregate capital raised exceeded \$1bn. Over recent years, growth in the start-up ecosystem and innovation policy reforms have helped to stimulate the Australian VC sector and attracted significant capital commitments from both domestic and foreign sources.

According to Preqin's report on Australian Superannuation Funds in Alternatives, historically, institutional investors in the country have steered clear of the VC market in view of the many challenges associated with a VC allocation. However, this approach has changed in recent years, and LPs are steadily becoming more receptive towards the asset class.

Phil Morle, Partner at Main Sequence Ventures, has observed positive changes in the Australian VC landscape: average fund sizes are growing, LPs are co-investing with larger cheque sizes in earlier rounds, funds are now more focused on specific opportunities/themes and firms are building a unique capability to find growth in their respective markets.

"[As the industry expands,] funds and investors are learning how to understand each other and get aligned on the opportunity. More social proof among institutional investors and evidence that VC can provide healthy returns are helping to grow the sector."

Phil Morle, Partner at Main Sequence Ventures

Figure 5: Annual Australia-Based Private Equity Fundraising, 2007 - 2018

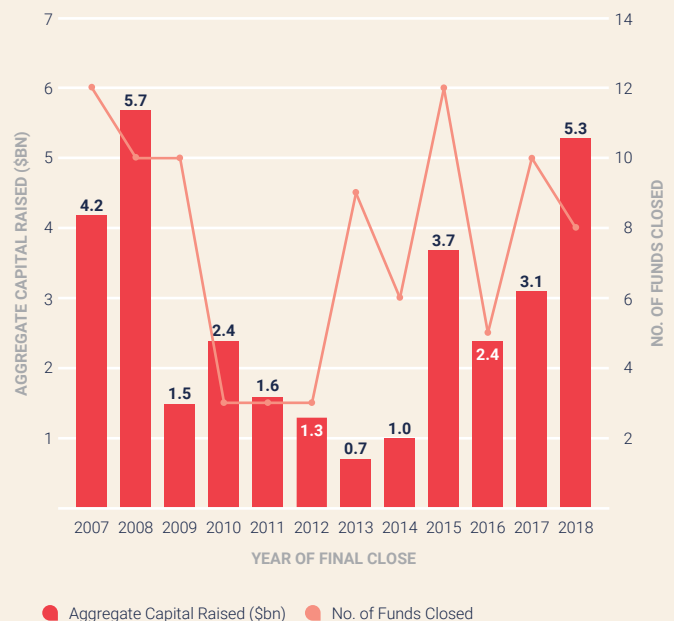
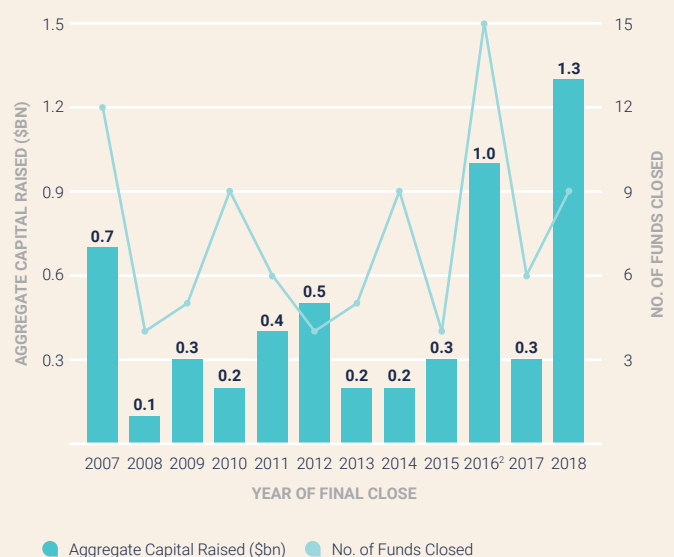


Figure 6: Annual Australia-Based Venture Capital Fundraising, 2007 - 2018



² MF Venture Private Investments Infinity was excluded from the dataset and the rest of this report due to a lack of verifiable data.

FUNDRAISING

BUYOUT FUNDS CONTINUE TO DOMINATE

Since 2012, buyout funds have consistently emerged as the preferred strategy among PE & VC investors, and have attracted the greatest amount of cumulative capital. Even though half of Australia-based funds closed between 2012 and 2018 are focused on VC opportunities, at \$14.5bn buyout funds have secured more than double the amount of capital raised by all other fund strategies combined throughout the years. Specifically, buyout funds secured approximately 79% of the total PE & VC capital raised in 2018.

The Australian PE industry has registered ongoing interest in the 'buy and build' strategy, based on a recently published report by MinterEllison.⁴ Some PE funds are seeking businesses that are below their usual 'equity cheque' size but are nonetheless suitable for their thematic investment in fragmented sectors, such as childcare, travel & tourism and food & agribusiness.

Figure 7: Australia-Based Private Equity & Venture Capital Fundraising by Fund Type, 2012 - 2018

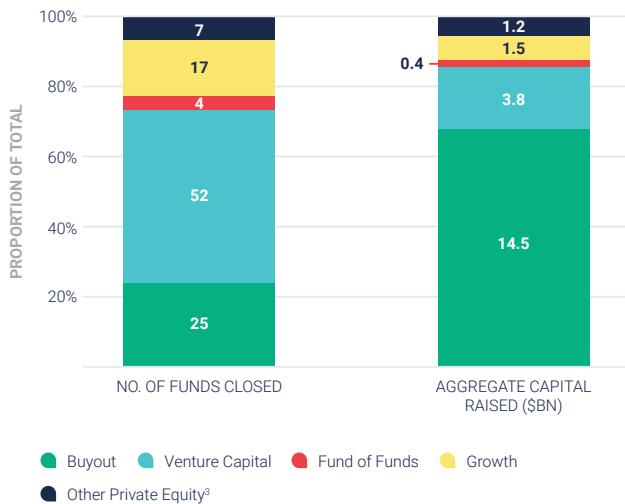


Table 1: Five Largest Australia-Based Private Equity & Venture Capital Funds Closed in 2018

Fund	Firm	Fund Type	Fund Size (\$mn)	Final Close Date
BGH Capital Fund I	BGH Capital	Buyout	2,600	May-18
Crescent Capital Partners VI	Crescent Capital Partners	Buyout	800	Aug-18
Telstra Ventures Fund II	Telstra Ventures	Venture Capital	675	Jul-18
Adamantem Capital I	Adamantem Capital	Buyout	600	Mar-18
Mercury Capital Fund 3	Mercury Capital	Buyout	600	Oct-18

The largest fund closed in 2018 was also a buyout fund, BGH Capital Fund I. The fund targets opportunities in Australia and New Zealand to support growth or operational improvement, looking at both mid-market transactions as well as larger buyout deals.

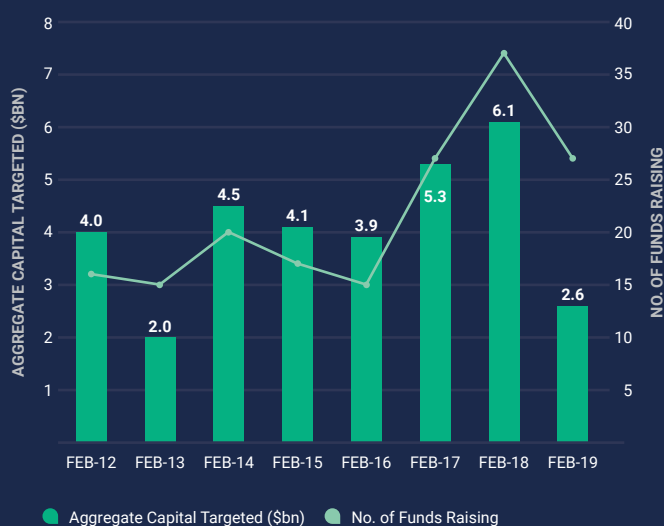
³ Other Private Equity includes Balanced, Co-Investment, Secondaries and Turnaround funds.

⁴ *Directions in Private Equity 2018*, MinterEllison, November 2018.

FUNDRAISING

FUNDS IN MARKET: NEW AGE FOR VC?

Figure 8: Australia-Based Private Equity & Venture Capital Funds in Market over Time, 2012 - 2019



There are 27 Australia-based PE & VC funds currently in market, looking to raise a total of \$2.6bn, which is the lowest combined target at this point in a year since 2013. Although aggregate capital targeted was up by 15% from February 2017 to February 2018, funds in market are now seeking 57% less in total commitments as compared to this time last year, which is expected given the high levels of fundraising that have been seen across the industry in recent years. This is also the first drop observed in the number of funds in market since 2016, having declined by 27% in comparison to this time last year.

Among PE & VC funds in market in February 2018, 49% had achieved an interim close, while only 33% of those raising capital in February 2019 have at least reached their first close. Notably, the majority (67%) of funds on the road are VC vehicles, which are aiming to raise approximately half of the total capital targeted across the PE and VC sectors. This demonstrates significant growth in VC funds' share of aggregate PE & VC commitments targeted given that, on average, they have represented approximately 20% of the total over the past seven years.



DEALS & EXITS

OVERVIEW

Figure 9: Private Equity-Backed Buyout Deals in Australia, 2009 - 2018

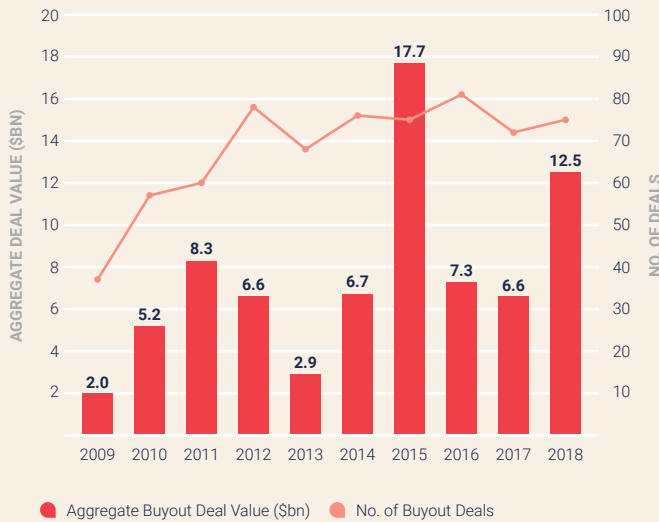
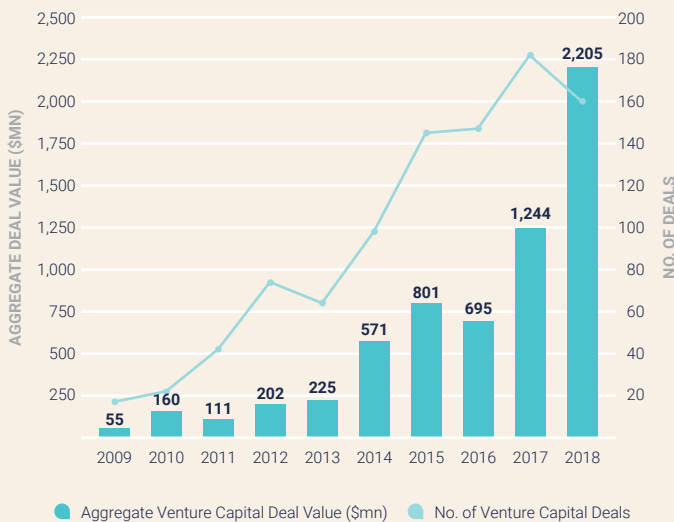


Figure 10: Venture Capital Deals⁵ in Australia, 2009 - 2018



Investment activity across Australia's private capital sector experienced a significant increase in both the PE and VC markets over 2018, overturning the trend of decline that has been observed since 2016. Despite the questions over asset pricing and political uncertainty since mid-2018, the grounds for market optimism are solid: foreign investors are attracted to the low-risk environment, dry powder is sufficient, and industries are rapidly changing in tandem with developments in technology.

Many private companies, whether small start-ups or more established companies, have looked to private capital sources as opposed to the listed market to fund their next phase of growth. This has helped to keep the deal pipeline strong for both PE and VC in Australia, and in 2018 PE-backed buyouts and VC deals in the country recorded an increase in aggregate deal value of 89% and 77% respectively compared to the previous year.

⁵ Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

DEALS & EXITS

BUYOUT DEAL ACTIVITY

Figure 11: Private Equity-Backed Buyout Deals in Australia by Industry, 2013 - 2018

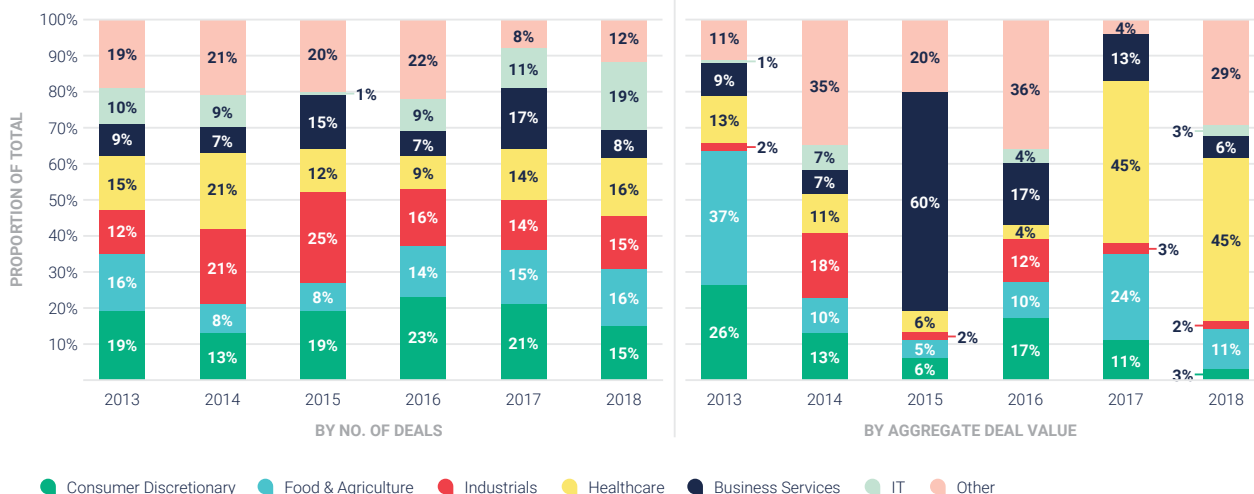
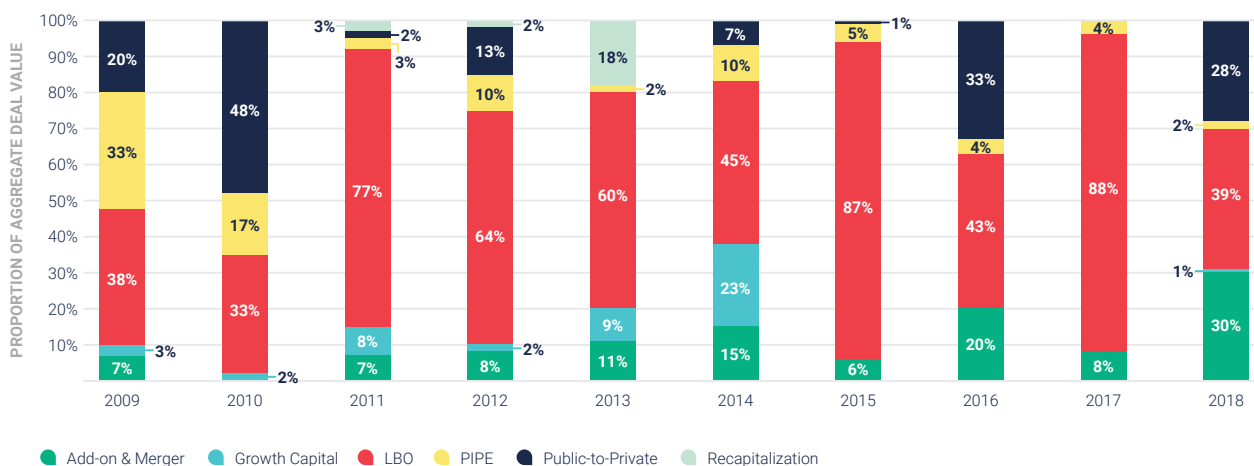


Figure 12: Proportion of Aggregate Value of Private Equity-Backed Buyout Deals in Australia by Investment Type, 2009 - 2018



PE-backed buyout deals in Australia have experienced two consecutive years of decline since 2015 (which represented the highest aggregate deal value on record), when 75 deals were valued at \$18bn. Since then, deal activity has bounced back to achieve the second highest deal value in 2018, with 75 deals completed for an aggregate \$13bn, up 89% when compared to the previous year.

While PE-backed buyout deals were evenly spread across a number of different sectors in 2018, the IT sector appeared a particular area of interest, which marks a departure from the traditional dominance of the consumer discretionary sector (the most active between 2015 and 2017 in terms of deal flow). The IT sector recorded 14 deals in 2018, contributing 19% of the total number of PE-backed buyout deals in Australia.

Notably, the healthcare sector continued to dominate in terms of the aggregate value of buyout deals in Australia, with a 45% market share in both 2017 and 2018. This was mainly on the back of some mega deals, namely investments in Sirtex Medical Limited and I-MED Network Ltd., which fetched a total of \$3.1bn and contributed 57% to the total aggregate value of healthcare deals in Australia in 2018. With a growing ageing population, private health insurance coverage in Australia is expanding, creating a favourable environment for healthcare sector investments. The increasing demand for the sector is expected to continue in line with the trend observed over the past two years.

DEALS & EXITS

VC DEAL ACTIVITY

Figure 13: Venture Capital Deals⁶ in Australia by Industry, 2013 - 2018

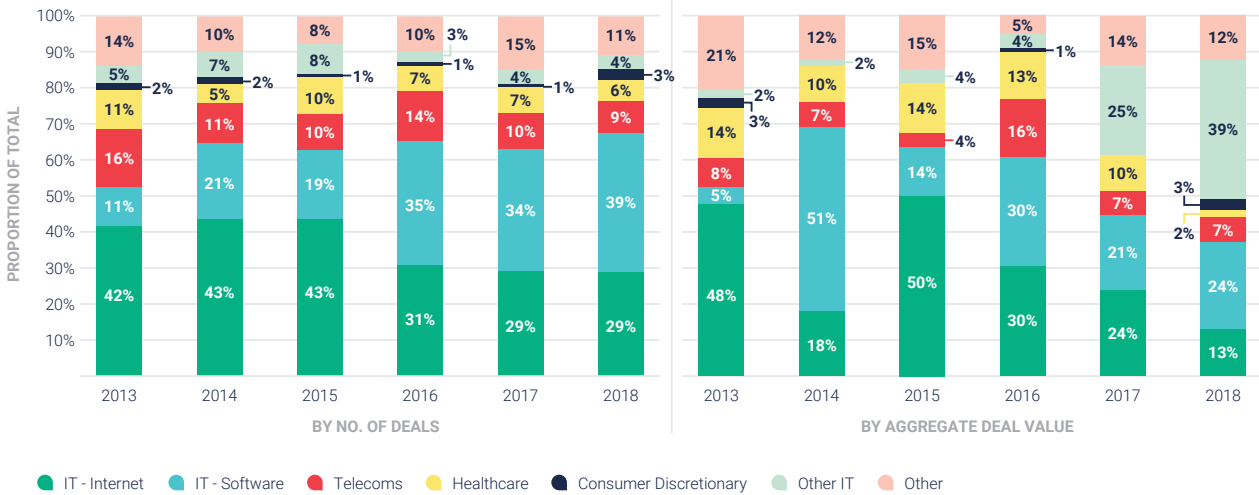
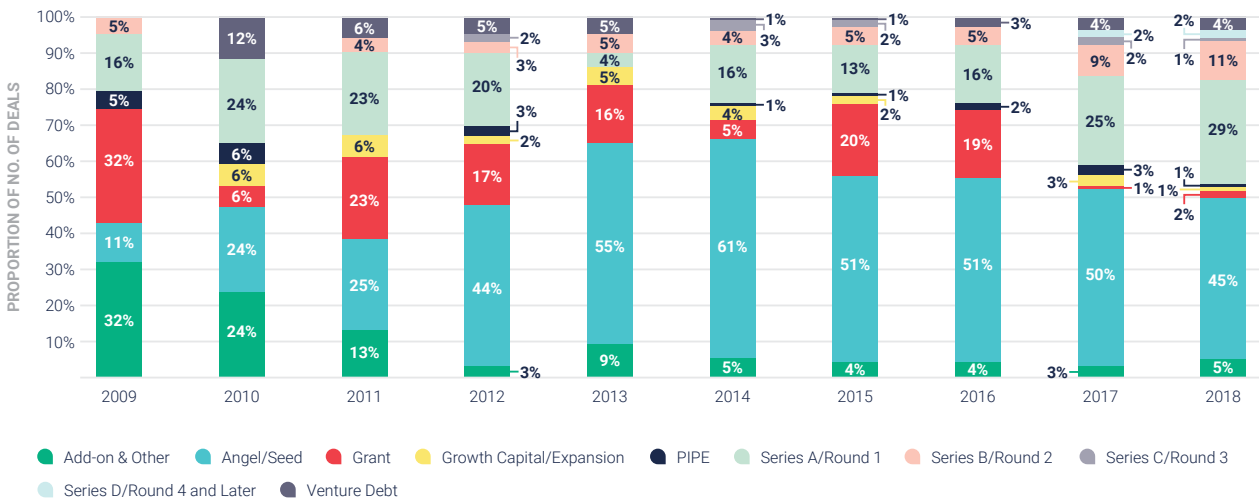


Figure 14: Proportion of Venture Capital Deals in Australia by Stage, 2009 - 2018



Since 2013, a total of 796 VC deals have been completed for Australian start-up companies, for an aggregate value of \$4.5bn. Historically, the internet sector has been the major investment field in terms of the number of deals completed, followed by the software and telecoms sectors; together these sectors contributed 56% of total deal value since 2013. In contrast, the internet sector contributed only 13% of aggregate VC deal value in 2018, the lowest total as seen in Figure 13. Notably, the software sector recorded a five-percentage-point increment from 2017 in terms of number of deals (from 34% in 2017 to 39% in 2018), and its share of aggregate deal value increased from 21% in 2017 to 24% in 2018.

Between 2013 and 2017, deals at the angel/seed stage accounted for more than half of all Australian VC financings. However, this figure decreased to 45% in 2018 as investors looked to invest in later stages; deals at the Series A stage have been on an upwards trend since 2015, with 38 deals completed in 2018 (29% of the total) worth an aggregate \$436mn.

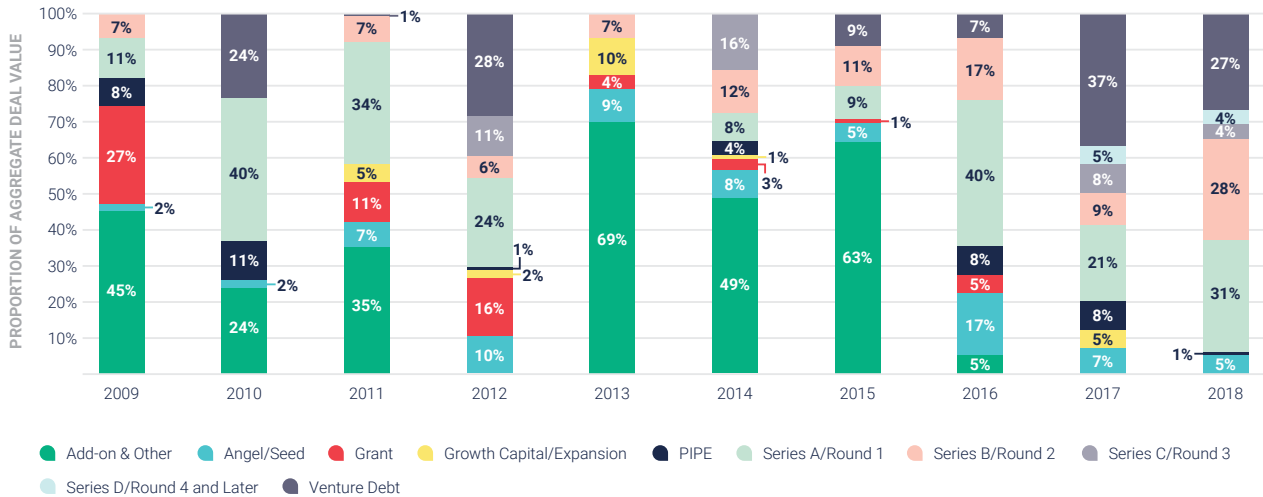
One prominent deal in 2018 was Judo Capital's Series A funding. The financial services firm raised \$140mn from Abu Dhabi Capital Group, OPTrust Private Market Group, Credit Suisse and Myer Family Investments.

⁶ Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.

DEALS & EXITS

VC DEAL ACTIVITY

Figure 15: Proportion of Aggregate Value of Venture Capital Deals in Australia by Stage, 2009 - 2018



At \$287mn, the aggregate value of Series B stage deals was up from \$79mn in 2017, representing 28% of the aggregate value of VC deals in Australia in 2018. Notably, early- and

expansion-stage deals from Series A onwards accounted for 67% of aggregate deal value in 2018, up 24 percentage points compared to 2017.



DEALS & EXITS

EXIT ACTIVITY

The aggregate value of PE-backed buyout exits in Australia recovered modestly in 2018 to total \$9.2bn from a low of \$8.1bn in 2017, stemming the consecutive drop in yearly aggregate exit value since 2014. In terms of exit strategy, trade sales constituted a record 73% of total buyout exits in 2018, the largest proportion observed in Figure 17. On the other hand, the number of IPOs & private placements as a proportion of total buyout exits fell substantially from 20% in 2017 to 6% in 2018; the IPO window remained largely closed due to jittery markets and an uncertain global macroeconomic outlook.

To increase portfolio liquidity, GPs also looked to other exit strategies, which accounts for some of the growth in the number of secondaries exits: exits via secondary transactions as a proportion of total exits have increased steadily from 13% in 2016 to 17% in 2017, reaching 21% in 2018.

Figure 16: Aggregate Value of Private Equity-Backed Buyout Exits in Australia, 2014 - 2018

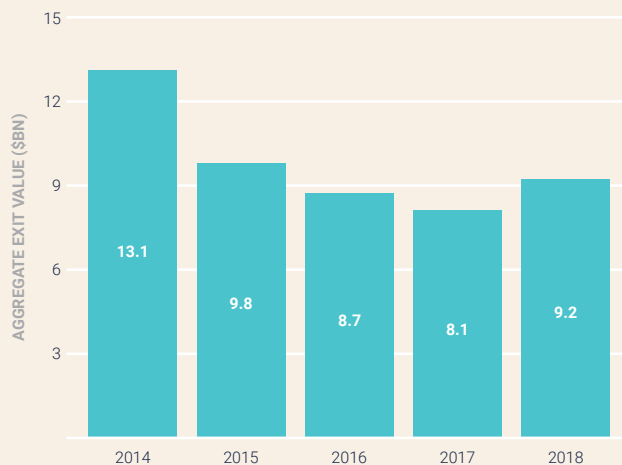
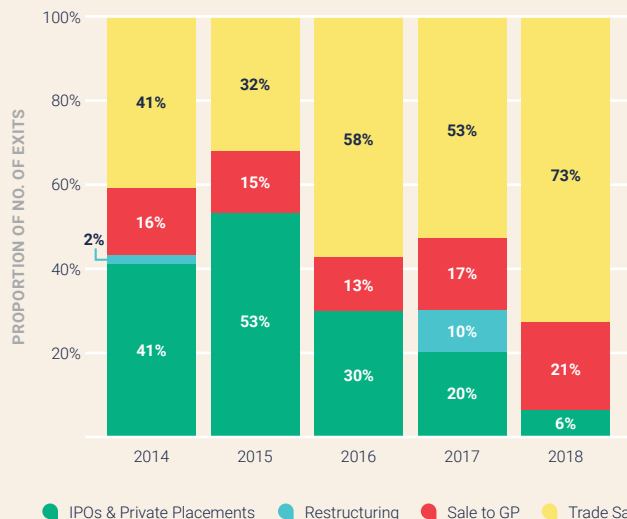


Figure 17: Proportion of Private Equity-Backed Buyout Exits in Australia by Type, 2014 - 2018



NOTES, METHODOLOGY & GLOSSARY

The information contained in this report is based on data from the Preqin data platform as well as on-the-ground information collected by both Preqin and the Australian Investment Council.

Data, figures and time periods may not match those presented in prior Yearbook Reports (published under the Australian Private Equity and Venture Capital Association Limited [AVCAL] name), as transitional changes to period reporting are managed in the current period's report.

- Report content has been co-authored by the Australian Investment Council and Preqin.
- All annual figures correspond to calendar-year periods.
- All currency units are denominated in Australian dollars unless otherwise stated.
- The figures for VC deals consist only of completed deals, while the figures for buyout deals consist of completed and announced deals.

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 capital firm or fund that invests only in the early stage of a company's 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 capital 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.
GP	General Partner. A term used to describe the fund manager that makes investment decisions for the fund on behalf of Limited Partners (LPs).
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, telecoms 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.
LP	Limited Partner. A term used to describe the investors in a fund that take no part in how the fund is managed (see the definition of 'GP' above).
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 in 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 that 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 Situations	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 that are experiencing trading difficulties.

