

Private Equity



A WORLD VIEW

Private equity firms invest record amounts overseas

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SPECIAL TO THE JOURNAL

The world's most populous democracy is becoming increasingly crowded with private equity investors.

United States-based private equity firms, flush with cash and facing an increasingly competitive domestic market, are investing record amounts overseas. And while Europe is still the sweet spot for investors, Asian markets, especially India, are piquing greater levels of interest.

Private equity is becoming "increasingly globalized," said Josh Lerner, professor of investment banking at Harvard Business School. "We are seeing U.S. groups transforming themselves into global ones, with offices in Europe and Asia. Not only are they helping portfolio companies expand to these markets, they are investing there."

Private equity investors in the United States announced 423 overseas deals last year, with a known value of \$89.36 billion, according to figures compiled for the Boston Business Journal by Zephyr, a service of Bureau van Dijk Electronic Publishing. In 2005, U.S. private equity firms announced 344 deals for a known value of \$62.3 billion.

United States-based private equity firms announced 52 investments in India last year, with a known value of \$2.6 billion, compared with 20 deals with a known value of \$824 million the year before, Zephyr's figures show.

In all, India-based ventures drew a record \$7.5 billion in private equity and venture capi-

ACTING GLOBALLY

The top 10 international targets for U.S. private equity dollars last year.

Countries	Number of deals	Number of deals with known values	Total deal value (millions)
Netherlands	13	10	\$18,453
Germany	31	12	\$13,271
Canada	45	36	\$12,284
United Kingdom	61	41	\$10,851
France	32	23	\$10,557
Austria	3	1	\$4,161
India	52	43	\$2,674
Spain	12	11	\$2,588
Taiwan	3	3	\$1,674
Czech Republic	1	1	\$1,547

Source: Zephyr

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tal in 2006, according to Venture Intelligence, a Chennai, India-based information services provider for the private equity industry. Arun Natarajan, CEO of Venture Intelligence, said that about 60 percent of the investments were made by U.S.-based venture capital and private equity firms.

Trish Fleming, executive director of Massachusetts Institute of Technology's Enterprise Forum, said that while India doesn't share the manufacturing base and potential of a market like China — a popular overseas target for U.S. investors — India has "a fairly sophisticated workforce and has developed a financing infrastructure with close ties to the United States that allows it to attract investment capital."

In fact, India drew more U.S. private equity dollars in 2006 than China, which had 19 announced deals with a known value of \$917 million, placing it at No. 15 on Zephyr's list. In 2005, China drew \$3.9 billion in U.S. private equity, placing it fifth on Zephyr's list.

Why the growing international interest? An obvious reason lies in the record amounts of capital raised by investors and the need to deploy the cash. The prevailing thought is that there are more opportunities to deploy this cash in developing markets, and at more handsome returns. (The Boston Business Journal reported last June that of the \$3.2 billion raised in 2005 by Massachusetts' most active private equity firms, less than 5 percent was

OVERSEAS: Greater interest

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invested within the state's borders.)

Fleming said that even though investment opportunities do still exist in the United States, all possibilities must be considered. "Markets are global, and you need to be globally aware of what's happening in both established and emerging markets. You simply have to make sure you're covering the options available to you, particularly since you're no longer restricted by travel and local geography in managing your investment portfolio."

Kim Kaplan-Gross, a partner with law firm **DLA Piper** in Boston, said China and India have been of interest to private equity investors for some time.

"Our offices in China are experiencing very high activity levels in venture, private equity and resulting capital markets work. I'm seeing private equity investment interest and activity focused on the Middle East, Russia and Far East geographies such as Korea and Vietnam," said Kaplan-Gross, who assists in the formation of private equity funds.

Vietnam and South Korea, said Heesen, "seem to have an entrepreneurial culture as well as good technical expertise that venture capitalists have been looking to."

Despite the opportunities the over-

seas market can yield, for some firms they also mean dealing with the unknown, which creates its own set of challenges, said **Arlene Rockefeller**, managing director of global equities for **State Street Global Advisors** in Boston.

"Whenever you're dealing with emerging markets there's always some issues. They don't have as much control or transparency and openness to non-domestic investors as developed markets have, so there's always some potential event risk as a result of regulatory changes."

For example, she cited "some of the currency issues we've had recently in Thailand, where they made certain rules making it more difficult to convert Thai currency into your own domestic currency to prevent over investment in some of their markets. Certainly we're seeing some of those same issues in China, where they're trying to prevent a bubble of too much investment coming in too quickly."

State Street Global has \$1.7 trillion in assets under management. Sixty-four percent of those assets are U.S. investments and 36 percent are non-U.S. investments, Rockefeller said.

Not to be overlooked is Japan, which could loom significantly in the overseas investment on the private equity landscape, said **Steven Tadler**, managing



BY MARC BERNSTAU | BUSINESS JOURNAL

Arlene Rockefeller, managing director of global equities for **State Street Global Advisors**, says the overseas market comes with its share of unknowns.

director of private equity firm **Advent International**, also in Boston.

"The economies of India and China are growing fast, but in terms of private equity and volume, I'd imagine the markets will actually be in Japan because, at this point, its economy is much larger than China's or India's, even though (both) will catch up."

Since its founding in 1984, **Advent International** has raised more than \$10 billion in private equity capital and has invested approximately \$6.5 billion, of which approximately two-thirds has been invested outside the United States.

Rockefeller said one reason people are interested in Japan is because of the potential turnaround that's started there. "They're also a trading partner with China, so people are looking for Japan to benefit from the growth in China as well."

However, Rockefeller emphasized that not all entities are ideally suited to invest in pre-emerging markets.

"Plans with significant asset size are unable to invest meaningful amounts in pre-emerging markets due to lack of breadth and lack of liquidity," she said. "They need to meet their diversification and growth needs by investing in the developed and emerging markets."

As for the types of targets drawing the most private equity interest, Tadler said it runs the gamut.

"The most appealing thing to private equity investors is a well-managed or high-growth company, which is what everyone tends to look for."

At the same time, he said "there's also great opportunities in companies that have not had the attention they need. By giving them a bit more of it and resources, you can make great companies out of them as well."