

Coller Capital

Global Private Equity Barometer

◆ JAPANESE SNAPSHOT

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE

Coller Capital's *Global Private Equity Barometer*

Coller Capital's *Global Private Equity Barometer* is a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific.

Japanese Snapshot

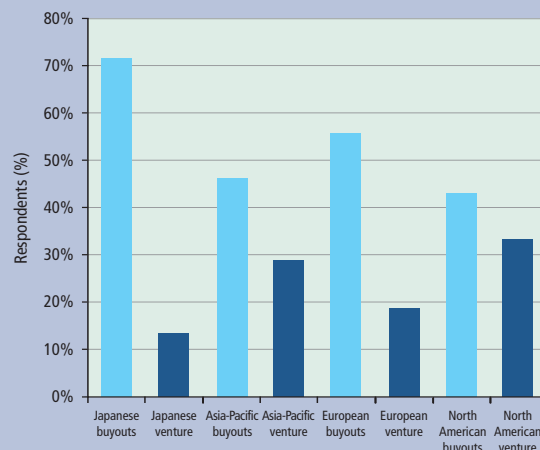
This special edition of the *Global Private Equity Barometer* on the Japanese private equity market captured the views of 70 private equity investors from around the world. The *Barometer's* findings are representative of the LP population investing in Japan by:

- Investor location
- Type of investing organisation
- Total assets under management

Returns from Japanese private equity

Investors have done very well out of Japanese private equity – especially buyouts. Almost three quarters of LPs (72%) report net returns of 16%+ from Japanese buyout funds. This compares with around half of LPs who have achieved similar returns from buyouts in Europe, North America and Asia-Pacific generally.

LPs achieving net returns of 16%+ from their portfolios since they began investing – by type of private equity



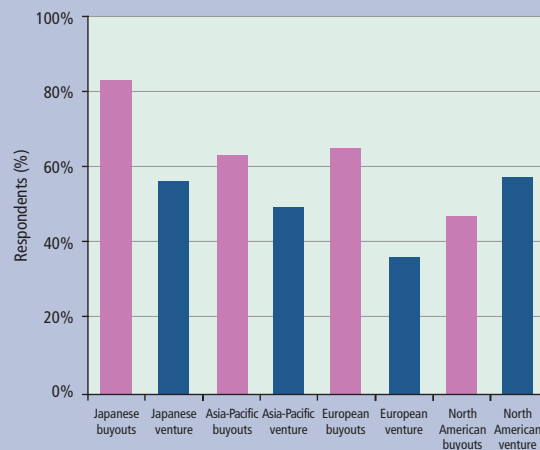
(Figure 1)

Medium-term return expectations

This strong performance is expected to continue in the medium term – over 80% of investors expect 3-5 year returns of 16%+ from Japanese buyouts. For other types of private equity, the proportion expecting returns of this magnitude ranges from around two thirds of investors for European and Asia-Pacific buyouts, to just over one third for European venture capital.

Expectations for Japanese venture capital are also high – well over half of investors (58%) expect returns of 16%+ (around the same proportion as for North American venture).

LPs expecting net returns of 16%+ from their portfolios in the next 3-5 years



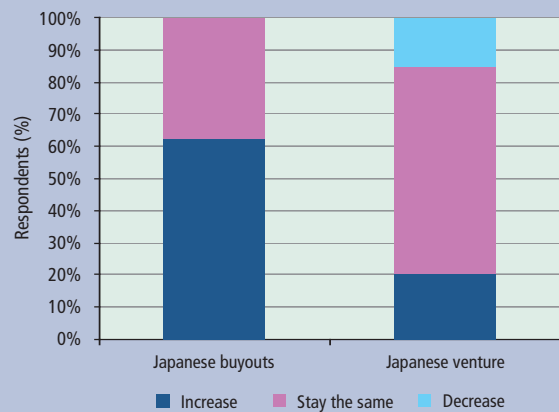
(Figure 2)

LP appetite for private equity in Japan

Nearly two thirds (62%) of investors in Japanese private equity plan to increase their allocations to Japanese *buyouts* over the next couple of years.

Allocations to Japanese *venture capital* are expected to remain more or less unchanged – with only around one third of LPs planning to change their allocations.

LPs' planned allocations to private equity in Japan in the next 2 years

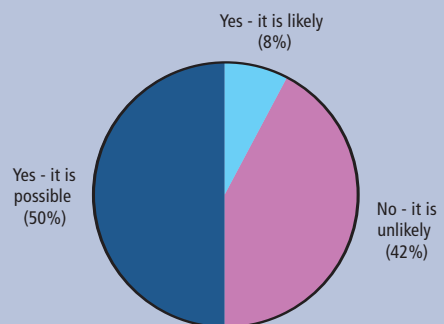


(Figure 3)

New investors in Japanese private equity

Almost a tenth (8%) of private equity investors who currently have no allocation to the Japanese market are actively planning to make an allocation in the next couple of years, while half of LPs would be willing to do so in principle but have no firm plans at the present time.

Likelihood of LPs without a current Japanese allocation investing in Japanese private equity in the next 2 years

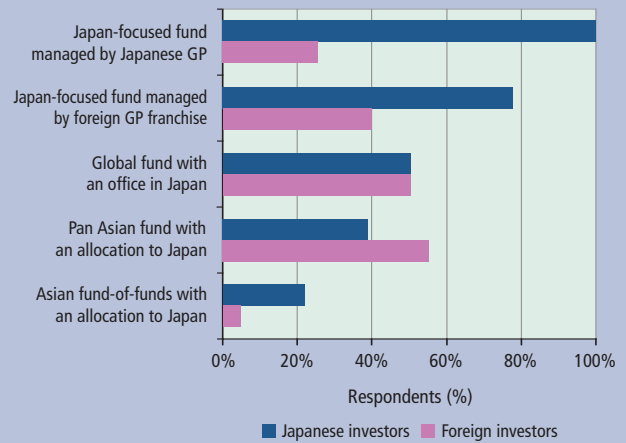


(Figure 4)

Investing in Japanese private equity

Although domestic LPs invest in Japan predominantly via Japan-dedicated funds, foreign investors tend to do so via Asian and global funds with an allocation to Japan.

Types of fund investing in Japanese private equity – proportion of LPs investing via particular routes

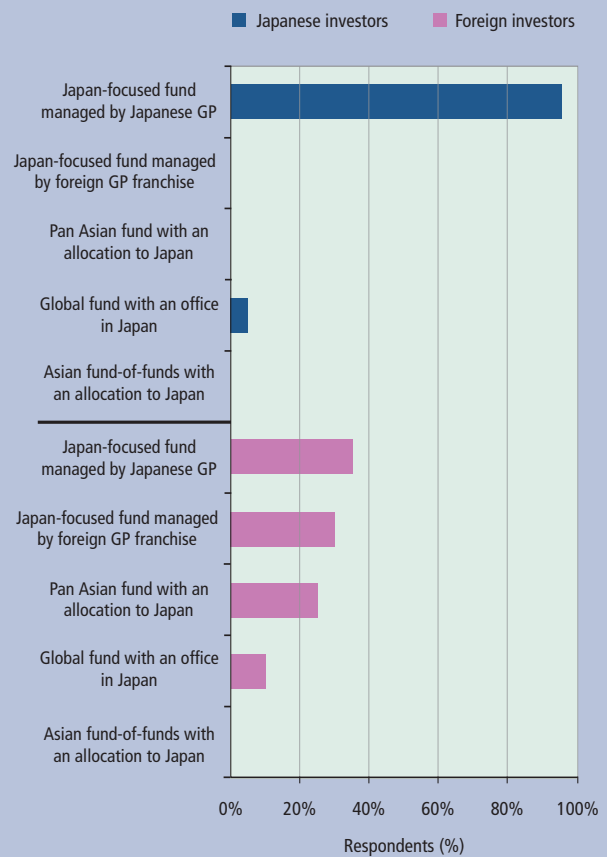


(Figure 5)

Best ways of investing in Japanese private equity

Japanese LPs are very clear about the best way of investing in Japanese private equity – namely via Japan-dedicated funds. However, there is no such consensus among foreign investors.

The best way to invest in Japanese private equity - views of Japanese and foreign LPs



(Figure 6)

Japan as a private equity market

Investors believe Japan generally offers good conditions for private equity investment:

- **Strong economy**

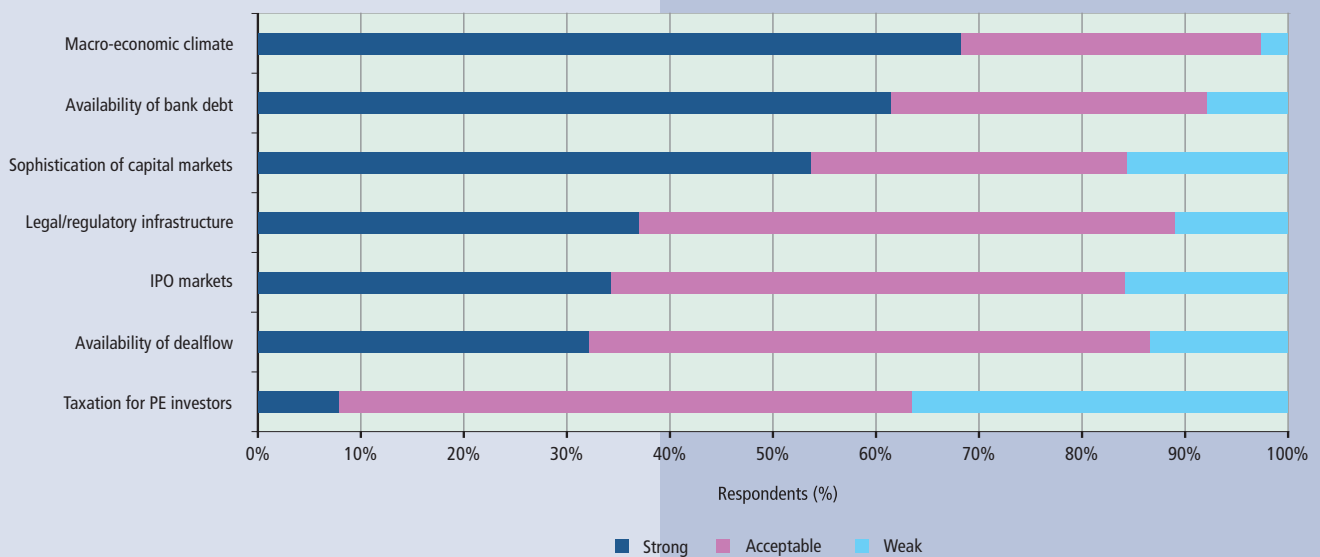
The country's macroeconomic climate is seen as a particular strength, with two thirds (68%) of LPs citing this as an important and positive factor for private equity in Japan.

- **Developed financial markets**

The availability of bank debt and the sophistication of the country's capital markets are also seen as important – being cited as strengths by 61% and 53% of LPs respectively.

On the other hand, over a third (37%) of LPs believe the tax climate for private equity is unfavourable in Japan compared with other countries.

Relative strengths of the Japanese private equity market – LP views



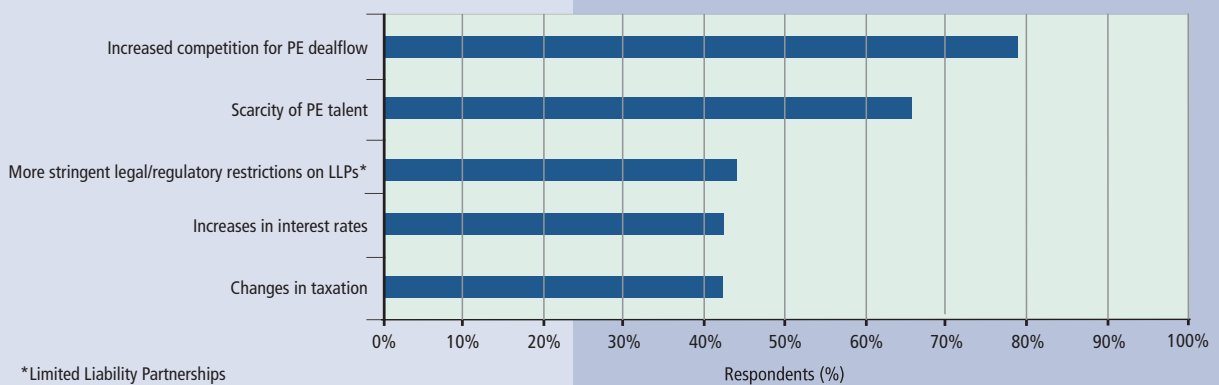
(Figure 7)

Market risks

Investors believe Japanese private equity risks becoming a victim of its own success:

- Over three quarters (79%) of LPs believe increasing competition for deals will threaten returns over the next few years.
- Two thirds of investors believe a continuing scarcity of talent will mean GPs struggle to find as many good people as they would like to employ.

Risks facing Japanese PE in the next few years – LP views

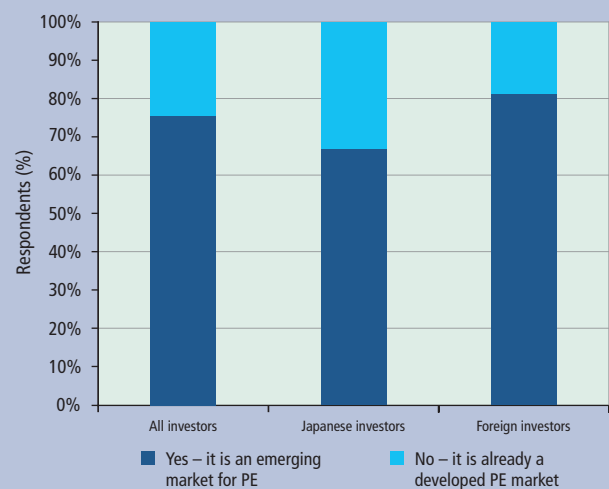


(Figure 8)

Maturity of Japan as a private equity market

Investors believe the Japanese market has significant potential for future development. A clear majority of LPs see Japan as an emerging market for private equity – two thirds of Japanese LPs hold this view, and the proportion is even higher for non-Japanese investors.

LP views on whether Japan is an emerging market for PE

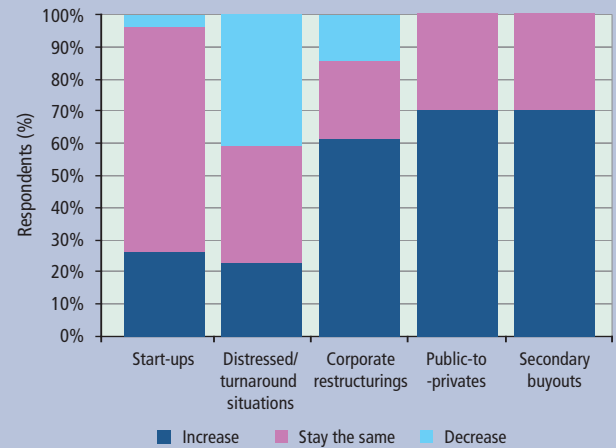


(Figure 9)

Private equity dealflow

Secondary buyouts, private equity purchases of publicly-quoted companies (public-to-privates) and corporate restructurings are all expected to become more important as sources of private equity dealflow in Japan over the next couple of years. Opportunities from distressed/turnaround situations – an important source of dealflow in recent years – are expected to decline in number.

Sources of private equity dealflow in Japan in the next 2 years – LP views

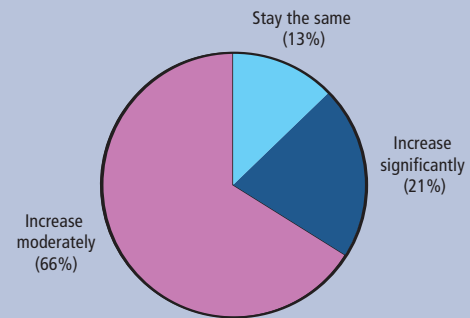


(Figure 10)

Private equity's share of Japanese M&A

Almost all investors (87%) expect private equity's share of the Japanese M&A market to increase over the next couple of years. Not a single investor expects private equity's share of Japanese M&A to decrease.

Private equity's share of Japanese M&A over the next 2 years – LPs' expectations

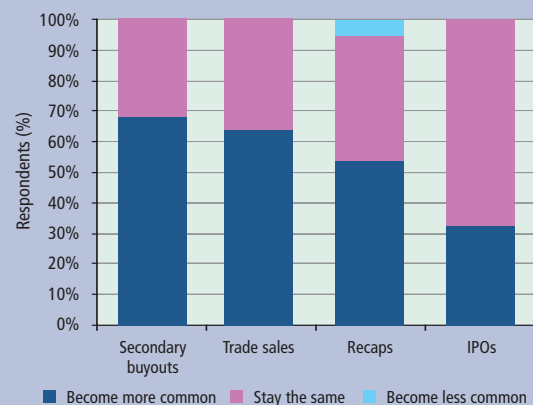


(Figure 11)

Exits

Around two thirds of LPs see secondary buyouts and trade sales increasing in importance as exit routes in Japan. Over half of LPs believe recapitalisations of existing investments will become more common. Two thirds of investors expect no change in the outlook for IPOs over the next 12 months, though one third of LPs are more optimistic.

Exit routes in Japan over the next 12 months – LP views



(Figure 12)

Global Private Equity Barometer – Japanese Snapshot

Respondent breakdown

Coller Capital's *Global Private Equity Barometer* researched the plans and opinions of 70 private equity investors based in Asia-Pacific, Europe and North America. Of these, 43 had commitments to private equity funds investing in Japan – either through Japan-dedicated funds or through more broadly-focused funds with an allocation to Japan. They form a representative sample of the LP population investing in Japan.

About Coller Capital

Coller Capital, the creator of the *Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

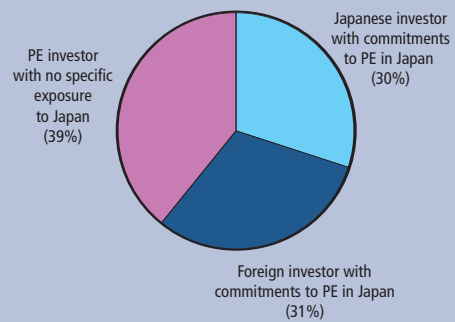
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in October-December 2006 by IE Consulting, a division of Incisive Media, which has been conducting private equity research for nearly 20 years.

Notes:

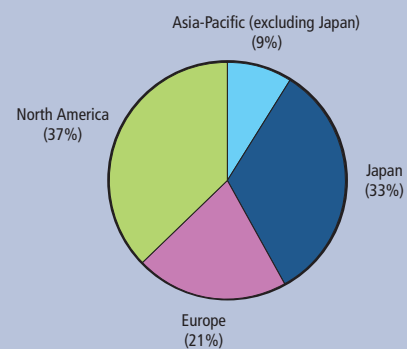
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents with commitments to Japanese private equity



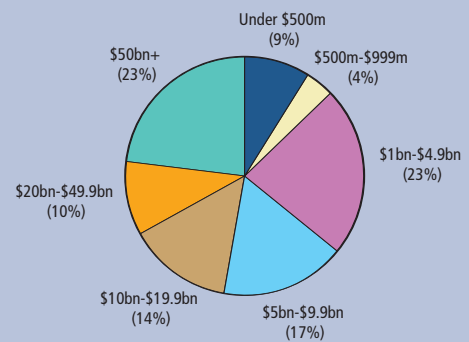
(Figure 13)

Respondents by region



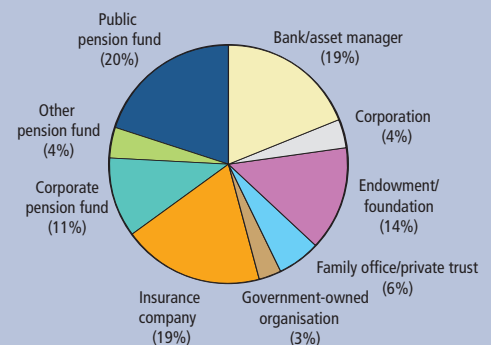
(Figure 14)

Respondents by total assets under management



(Figure 15)

Respondents by type of organisation



(Figure 16)

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