Private Equity International

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PUBLISHED: 17 July, 2024

PEI GROUP DATA

Advent International 'doubles down' on APAC private equity

Japan could be in contention for Advent's next stage of Asia-Pacific expansion after the firm's newly opened Australia office, India head Shweta Jalan tells PEI.

At a time when some investors are rethinking their exposure to Asia-Pacific private equity, Advent International is doubling down on the region.

Advent earlier this month opened an office in Sydney, Australia – its third in APAC behind India and China, per a statement. It appointed Beau Dixon, a former managing partner at Sydney-based Anchorage Capital Partners, to lead the office as managing director and head of Australia and New Zealand.

The move comes amid plans to increase Advent's activity across APAC markets, Shweta Jalan, managing partner and head of India, told Private Equity International.

"Having established a strong presence in both India and China now, we thought the time is really right for us to double down even more [on] the whole APAC region," she said.

"In that context, Australia and New Zealand seemed to be very obvious markets. We've already done a few deals in Australia, and it's been a very good experience for us; it lends itself a lot to Advent-style transactions, which are control and control-like transactions as well."

Advent's activity in Australia to date has included luxury fashion brand Zimmermann last year, defence business Cobham in 2020 and business management software provider Transaction Services Group (now part of Xplor Technologies)

in 2019.

The firm's increased appetite for APAC will likely be reflected in the composition of its latest flagship fund – Advent International GPE X – which closed on $25 billion in 2022.

"While we have no allocations for any geography, the fund focus, frankly, is Europe and North America," said Jalan, declining to disclose the proportion it has invested in any specific market.

"But we have an ability to move, I would say, a very feasible portion of that in the APAC region as well. And with every passing fund, we have tried to increase the amount we're investing in APAC as our presence has grown, as we've been able to return capital through exits. We hope the trajectory will continue and we can continue to grow the APAC portion of the global fund."

Investor sentiment

Advent's APAC conviction could be perceived as something of a contrarian move given that some global LPs have grown more cautious of the region. According to PEI's LP Perspectives 2024, which surveyed 117 institutional investors, 26 percent are planning to reduce their APAC exposure over the next 12 months – more than any other geography. Only 14 percent reported increased appetites.

"From our LPs – and I meet a lot of LPs – I think there's a lot of excitement around APAC," said Jalan. "If you look at the contribution… of overall GDP growth of the world and then look at what APAC has contributed in the last decade, it would be the largest contributor. Europe, for example, is a slow growth environment, so if you want growth… I think the next big engine is going to be APAC."

Jalan cited India's demographic profile, "stable political environment" and GDP growth as factors behind the market's rising appeal for private equity investors.

"And likewise, I would say there are a lot of LPs talking about investing in Japan-only funds as well, and there's some global funds moving to Japan. There is a lot of excitement about other countries like Japan and Australia – I would say most of the global peers are there."

Though Advent is not active in Japan,

Jalan said the market could be a candidate for the firm's next office expansion in APAC. "It lends itself to a lot of the transactions that Advent likes to do. It would certainly be in consideration [for our next office]."

China concerns

Advent's enthusiasm for APAC isn't reflected in the region's fundraising fortunes, with capital flowing to a smaller number of larger vehicles. Only 57 APAC funds held a final close in H1 2024, raising $29.1 billion between them, according to PEI data. By comparison, 308 funds raised $64.9 billion last year, and 637 funds raised $127.8 billion in the heady days of 2021.

"The plummeting of fundraising I actually would not relate to [LP] interest – I would relate it to people's performance," Jalan noted. "People who struggle to raise, I think probably had a little bit of a mixed bag in terms of performance. But people who performed in Asia have certainly been able to increase their fund sizes."

APAC's fundraising decline has also been driven in part by concerns from some quarters over geopolitical tensions and regulatory uncertainty relating to China's private equity market.

Advent, for its part, has completed four China deals since December 2021, the most recent of which – a buyout acquisition of exhibition business Globus Events – came in February this year, per its website.

"We're committed to China," she added. "What we are doing in China is really focusing on China for China deals; we believe in the domestic growth story. It's not a market we can ignore, with 30-plus percent of the world's manufacturing."

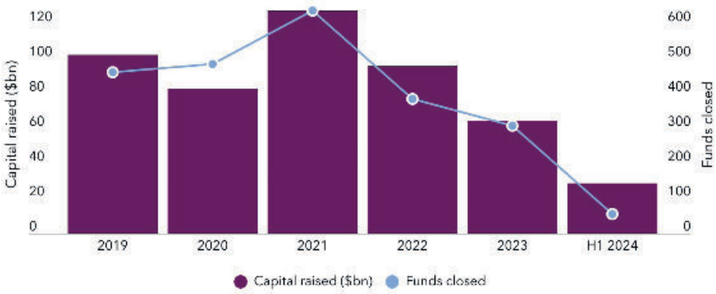
Regardless, some LPs have sought greater clarity over the firm's exposure to this market.

"[They] ask us questions around how we're thinking about China," said Jalan. "I mean, one can't run away from that. I guess the question is, 'What are you doing in China, how much are you doing in China, and what is your focus in China?'"

Diminished interest from some firms could also lead to opportunities for those with conviction in China, which is "very well priced", she added. "If you can find the right assets, it could be a very interesting market."

ON THE DECLINE

The number of APAC-focused funds closed each year has plummeted since 2021



Source: PEI

Indian inflows

India has emerged as one potential alternative for investors, with the market likened by some to China's private equity market a decade earlier. Global and domestic firms are increasingly active in the country's emerging buyout segment, leading to concerns among some that the market has become overly expensive.

According to EY's India Trend Book 2024, India saw 56 buyout deals representing a total value of $12 billion last year, up from $10.4 billion across 53 deals in 2022. Buyouts accounted for 24 percent of the $49.8 billion invested across private equity and venture capital in India last year, making it the second most common investment strategy after growth.

"[India] deals are not expensive because of private equity competition – it's expensive because of the way public markets are in India today," said Jalan. "It's a very hot public market environment, and obviously there's some level of benchmarking that gets done to public market comps. That results in relatively high valuations."

Part of APAC's historic appeal has been predicated on the assumption that international investors would benefit from a risk premium in the region. Jalan, for her part, is wary of generalising APAC as a single geography.

"You can't talk about Australia in the same way that you talk about India or about China. I would say, on balance, some geographies certainly, yes, [there is a risk premium]," she added, declining to name individual markets where this dynamic is present.

"If you're investing from a dollar-based fund, for example… you have to add what that would look like in terms of dollar-based returns. So you have to attach this premium to it."