AVCAL

The AUSTRALIAN PRIVATE EQUITY & VENTURE CAPITAL ASSOCIATION Limited

PRIVATE EQUITY

— December 2011

Attractive PE performance

Australian PE funds have generally outperformed both domestic and global public equity indices such as the S&P/ASX 300, S&P 500 and the MSCI Europe Indices over the one- to ten-year periods.

Active M&A market

Australia has historically had the most active M&A market among developed Asia-Pacific (ex-Japan) markets and continues to perform strongly. In FY2011, the number of Australian M&As and private placements surpassed its previous high-water mark recorded in FY2007.

Well-established base of growth and mid-market funds

Growth or expansion funds have traditionally been a mainstay of the Australian PE industry. The Australian growth funds experience is consistent with independent research showing that smaller-scale PE investments and funds often perform extremely well.

Positive investment outlook

A strong banking system, robust regulatory environment and thriving resources sector have aided Australia in its recovery efforts post-GFC, providing a conducive setting for the continued growth of the Australian PE industry.

Australian PE funds outperform public equity benchmark

Figure 1: Australian PE-only benchmark index as of June 30, 2011 (end-to-end pooled return net to limited partners)
Source: AVCAL/Cambridge Associates

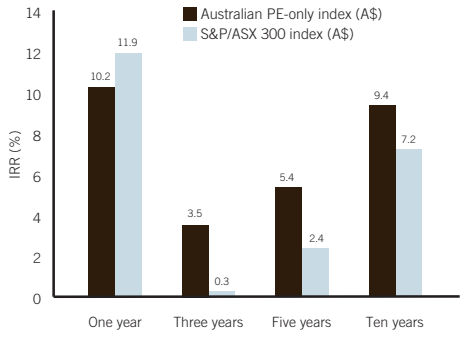
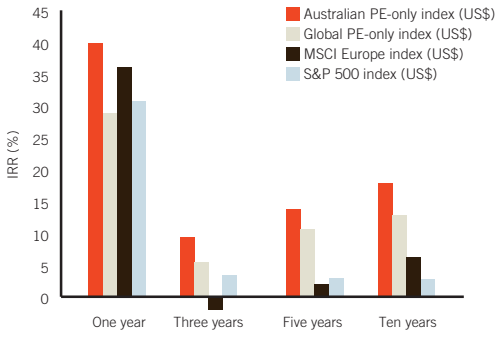


Figure 2: Australian PE-only benchmark index as of June 30, 2011 (end-to-end pooled return net to limited partners)
Source: AVCAL/Cambridge Associates



Despite unprecedented global volatility over the last few years, the Australian private equity (PE) industry has been resilient and generally recorded higher benchmark returns than local and overseas public indices over one- to ten- year horizons.

Encouraging returns from PE exits

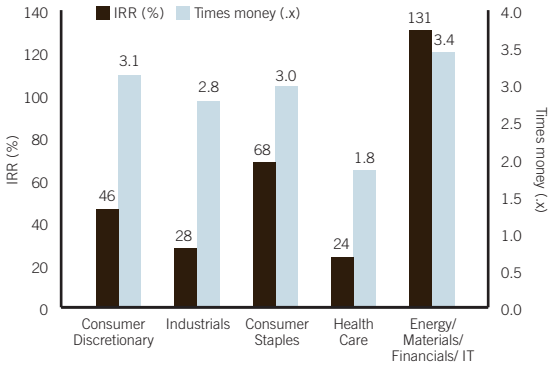
An analysis of 47 divestments by PE firms in Australia between FY2009 – FY2011 shows that the average times money multiple was 2.8x and average IRR was 51%. These companies were held for a period of five years on average.[1]

The number and value of secondary deals have also increased in recent years. Seven PE-backed companies were divested by secondary exits in FY2011 alone, resulting in an average times money multiple of 3.2x and average exit IRR of 51%.

[1] Includes all PE-backed exits via trade sales, IPOs and secondary sales where exit multiples and exit IRRs were available.

[2] Lopez-de-Silanes, F., L. Phalippou and O. Gottschalg, *Giants at the Gate: On the Cross-Section of Private Equity Investment Returns*, EDHEC-Risk Institute Working Paper, Jan 2011.

Figure 3: Average times money multiples and IRRs of 47 PE divestments between FY2009 – FY2011 by sector
Source: AVCAL



Active M&A Market

Figure 4: Value and number of Australian M&As & private placements
Source: Capital IQ (completed deals only)

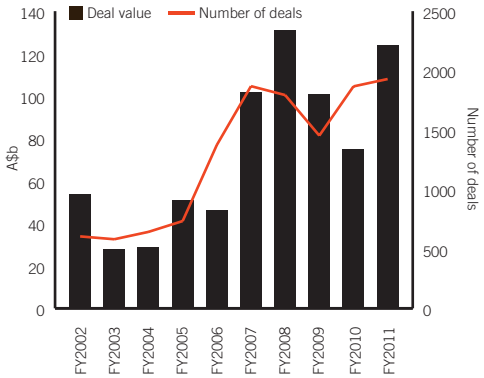
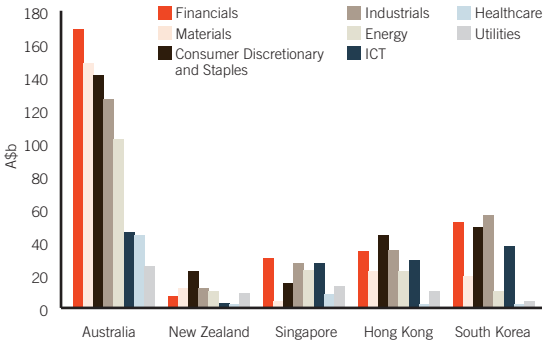


Figure 5: Value of developed Asia-Pacific (ex. Japan) M&As & private placements by sector (FY2002 – FY2011)
Source: Capital IQ (completed deals only)



Australia has historically been a major destination for global investors in the Asia-Pacific region. Some of the largest transactions in 2010 and 2011 were PE-linked deals, such as the debt-for-equity swap of Alinta Energy by a consortium led by TPG, the takeover of healthcare provider Healthscope by TPG and The Carlyle Group, and Affinity Equity Partners' exit from Loscam through its sale to China Merchants Group. An increase in secondary PE deals in 2011 has also lent momentum to the M&A market, such as the sale of MYOB to Bain Capital, and the sale of Study Group to Providence Private Equity.

Well-established base of growth and mid-market PE funds

Growth or expansion funds have traditionally been a significant part of the Australian PE industry, accounting for nearly two-thirds of all PE deals over the last five years. Some of the most successful PE investments – with triple-digit IRRs – were made by local growth funds, such as labwork and mineral testing provider Amdel (CHAMP Ventures) and touch screen developer NextWindow (Jolimont Capital).

The experience of Australian growth funds is consistent with independent research showing that smaller-scale PE investments and funds often perform extremely well.[2]

Positive investment outlook

Figure 6: GDP growth rates (%)
Source: OECD

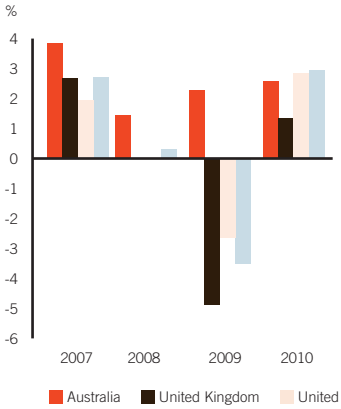


Figure 7: Unemployment rates (%)
Source: OECD

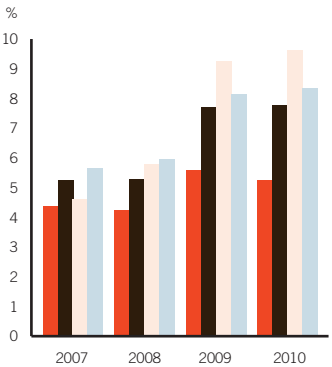
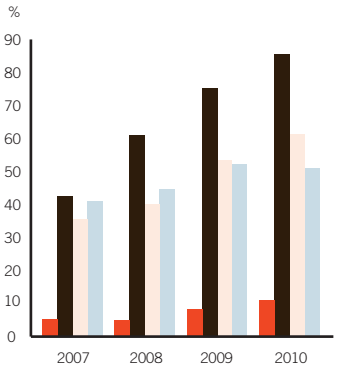


Figure 8: Total central government debt as a % of GDP
Source: OECD



With robust GDP growth, low unemployment levels and low central bank debt, Australia has been one of the best performing OECD nations during and after the global financial crisis. Australia's growing superannuation industry, robust regulatory environment, highly rated banking system and strong resources sector underpin its economic resilience. For instance, Australia's superannuation sector is ranked fourth-largest in the world with $1.3t under management and growing at 10% per year on average.[3] Regulatory bodies such as APRA, ACCC, and ASIC maintain regulatory and governance standards that place Australia among the best in the world for financial market regulation. Australia's resources sector makes up 40% of all exports, driven by huge demand from developing Asian economies. The Australian PE industry is well-placed to take advantage of these macro-economic benefits and continue to grow and invest in value-adding sectors.

[3] Austrade, *Data alert: Australia powers up to fourth spot in global pension rankings*, Feb 2011.