

# ISCA – Breakfast Talk Series

Private equity and debt – What you need to know about raising funds from alternative capital providers



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# Introduction

## Today's speaker

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- ▶ Over 20 years of experience in restructuring, turnaround, special situations and corporate finance
  - ▶ Formerly with Ernst & Young and Arthur Andersen, investment banker with Morgan Stanley, and in senior management as a Chief Restructuring Officer, CFO and interim CFO and Board member to distressed companies
  - ▶ Investment banking experience includes sourcing, structuring and executing high yield, stressed and distressed investment opportunities across Asia Pacific for Morgan Stanley prop books
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# Introduction to private capital

Did you know?



Owned by

Owned by

Owned by

Owned by



# Introduction to private capital

There is lots of “dry powder”

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Shoreline seeks to raise \$1.5 billion in dry

**UPDATE 1-Baring Private Equity Asia closes**

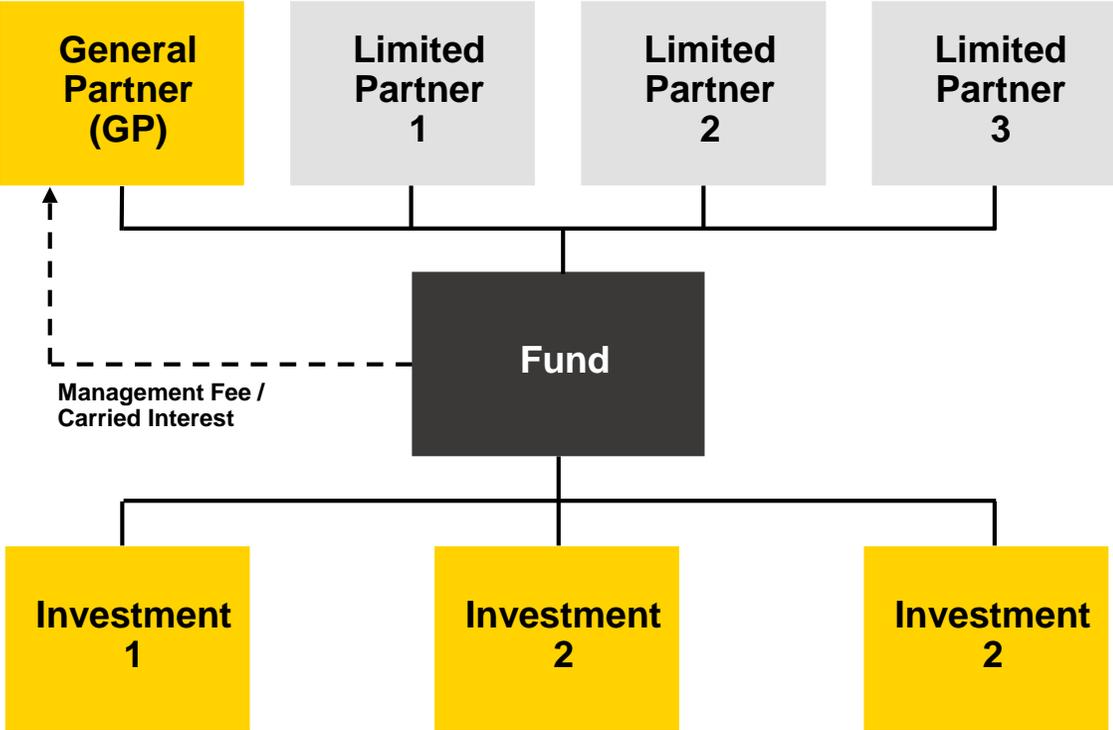
**Hillhouse secures \$10.6b of dry powder for Asia dealmaking**

...raising exercise, a signal that  
...ahead.  
...allocated to real estate investments in  
...city fund for the region.

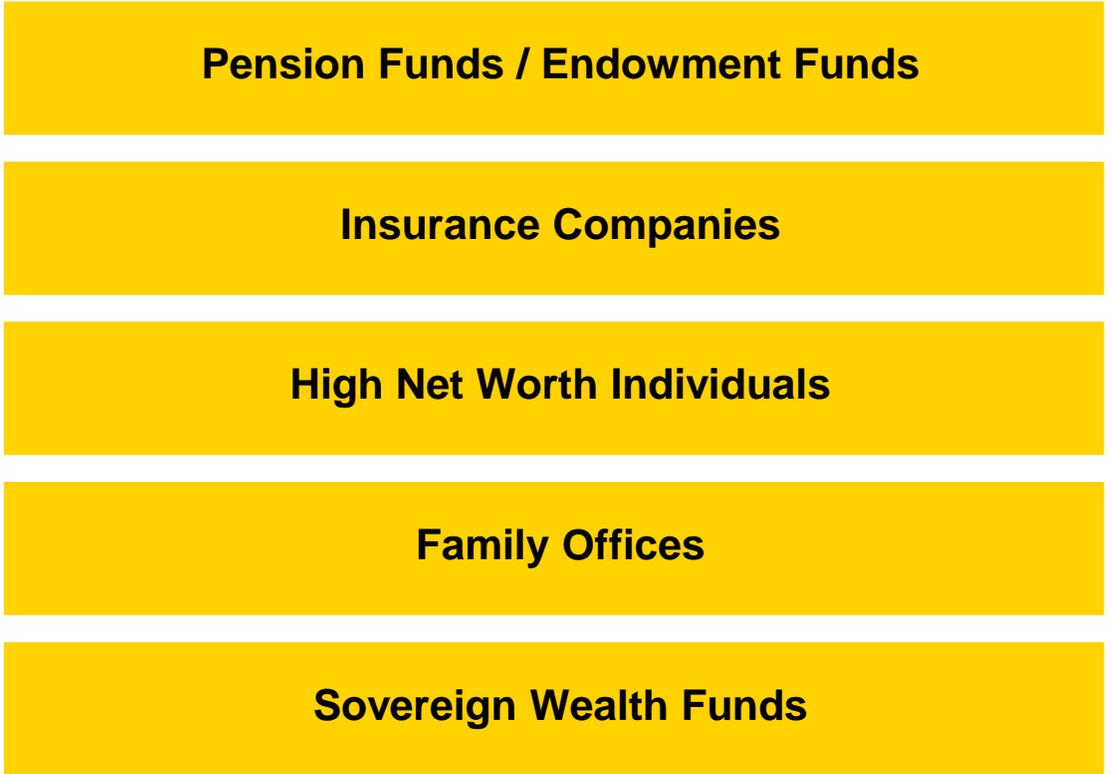
# Introduction to private capital

## Typical fund structures and investors

### Fund Structure



### Fund Investors



# Introduction to private capital

## Broad investment strategies

### Private Equity

**1** Venture Capital

**2** Growth Capital

**3** Leverage / Buyout

**4** Sector Fund

### Private Debt

**1** Senior Secured

**2** Mezzanine Debt

**3** Distressed and Special Situations

# Introduction to private capital

## Private equity

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### Venture

- ▶ Financing start up and early stage companies with high growth potential
- ▶ Financing for product development, business development sales and marketing
- ▶ Multiple series for different financing stages. Minority ownership

### Growth

- ▶ Growth capital is capital provided to companies in established markets with an established business
- ▶ Financing for product enhancement/extension, customer acquisition and operational scalability and support

### Buyout

- ▶ Buyout refers to the acquisition of a company, business unit or business assets typically using borrowed funds. Companies have strong, predictable operating cash flows
- ▶ Control orientated transactions

### Sector Specific

- ▶ Sector focused funds
- ▶ Minority or control

# Introduction to private capital

## Private debt

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### Senior debt

- ▶ Senior debt refers to first ranking, secured loans used to finance buyout transactions and growth funding
- ▶ Returns are generated almost exclusively by the current interest payments

### Mezzanine

- ▶ Mezzanine debt is a hybrid form of capital, which sits between senior debt and equity on a company's balance sheet.
- ▶ Used mainly for buyouts and growth finance and is often subordinated to bank debt (e.g. expansion of plant and pre-IPO)

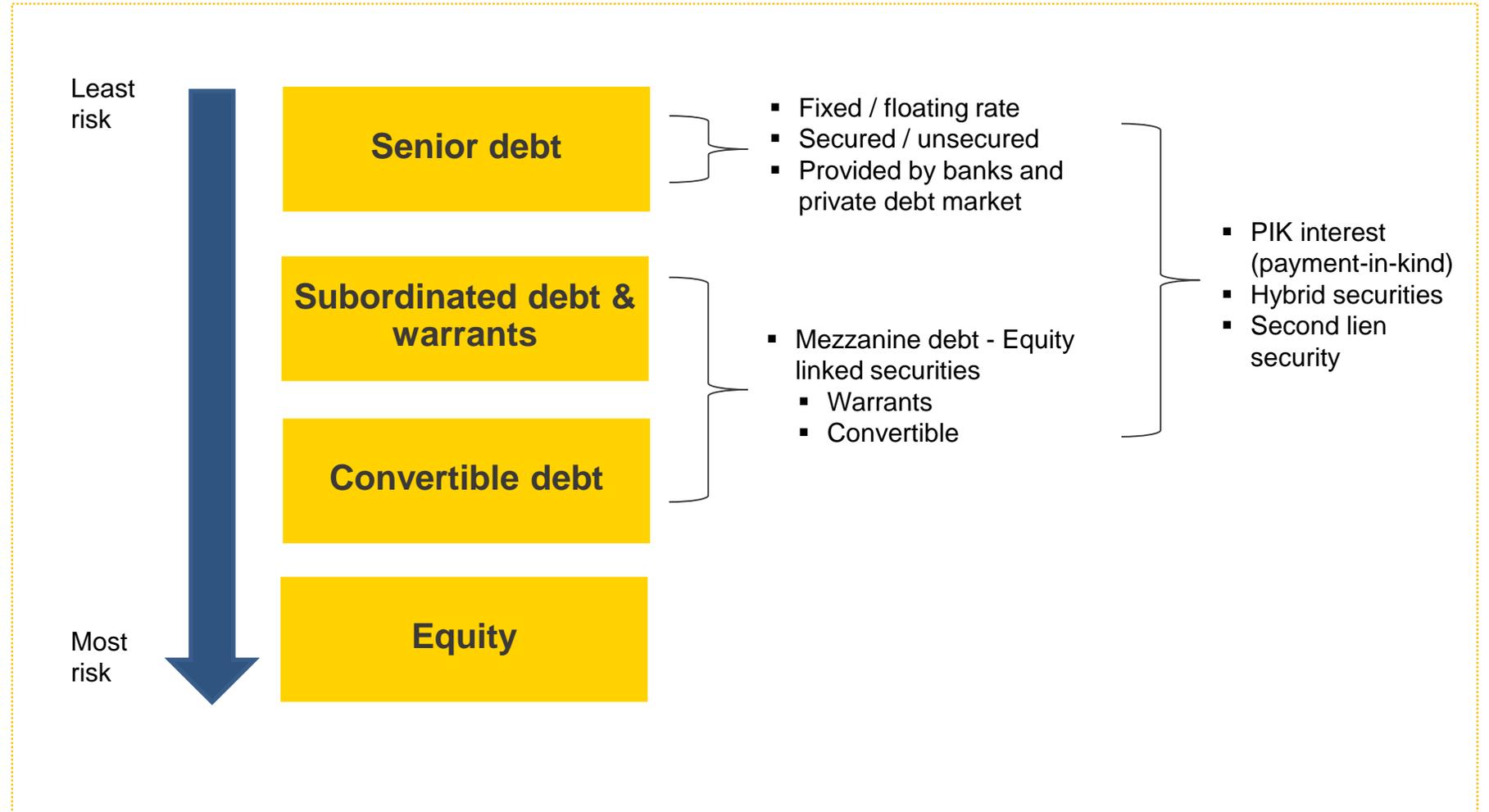
### Distressed and special situations

- ▶ Distressed debt focuses on investments into securities issued by financially or operationally distressed companies which are experiencing default or under bankruptcy (e.g. rescue financing)
- ▶ Special situations focuses on investments in companies that do not have access to traditional financing due to sector or market dislocation (e.g. working capital financing and bridge financing)

# Private debt – detailed look

## Capital structure

- ▶ Private debt comprises senior, mezzanine and other forms of debt financing that comes mainly from institutional investors – but not from banks
- ▶ Alternative source of capital where traditional bank lenders are not willing or able to lend
- ▶ Private debt instruments are generally illiquid and not regularly traded on exchanges



# Private debt – detailed look

## Investor rationale

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- ▶ Mezzanine and special situation investors attracted due to:
  - ▶ Attractive return profile
  - ▶ Downside protection via tailored repayment schedule to match cash flows, security over assets / first priority in an insolvency event and negotiated terms of the financing

### Equity Like Returns

- Coupon
- Equity upside

### Downside Protection

- Tailored repayment schedule to match cash flows (certainty of exit)
- Priority in event of default / security over assets
- Covenants / restrictions on borrower can be negotiated

# Private debt – detailed look

## Investor returns driven by 4 main features

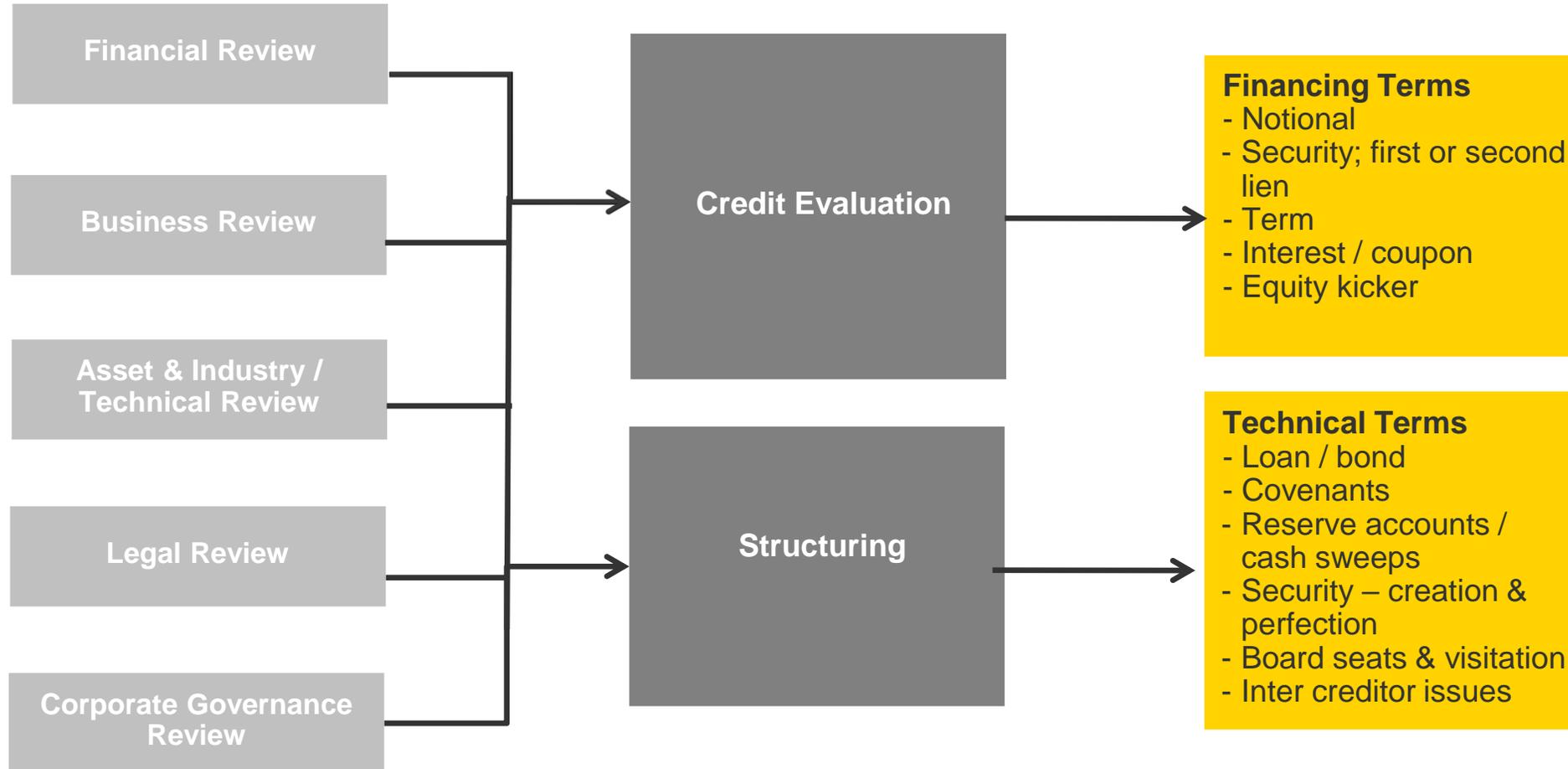
- ▶ Return to mezzanine and special situation investors typically comes from:
  - ▶ Cash coupon / interest
  - ▶ PIK coupon / interest
  - ▶ Equity upside
  - ▶ Participation

<b>Cash</b>	<ul style="list-style-type: none"><li>• Fixed rate</li><li>• Floating rate</li></ul>
<b>PIK</b>	<ul style="list-style-type: none"><li>• Non cash pay</li></ul>
<b>Equity</b>	<ul style="list-style-type: none"><li>• Detachable warrants</li><li>• Conversion feature</li></ul>
<b>Participation</b>	<ul style="list-style-type: none"><li>• Payment in lieu of equity</li></ul>

# Private debt – detailed look

## Deal structuring

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# Case studies

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- ▶ Working capital financing – HK listed forestry company
- ▶ Pre IPO growth capital – Indian cable TV and broadband company
- ▶ Rescue financing – Singapore listed construction company
- ▶ Rescue financing – Australian listed leisure company

**DHC Capital | Restructuring | Capital Raising |  
Accelerated M&A | Expert Testimony | Board &  
Executive Appointments**

**About DHC Capital**

DHC Capital is an investment banking and financial advisory firm specialising in providing solutions to critical business challenges and developing differentiated and innovative liquidity solutions for clients.

DHC Capital provides independent and conflict-free advice on financial and operational restructuring to corporates, creditors, investors and other stakeholders, both in and out of Court. DHC Capital also advises clients on structuring and executing bespoke capital raising and accelerated M&A transactions in stressed, distressed and special situations. DHC Capital will further provide directors or executives into corporates, which are entering into a restructuring process, being restructured, exiting a restructuring process or on behalf of creditors and investors to monitor and protect their investments.

For further information, please visit [www.dhccapital.com](http://www.dhccapital.com).

**DHC Capital Pte Ltd**

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