
Capitalizing on Indonesia's Private Equity Market

Mines & Money Conference
Hong Kong 2015

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Main Points

- **Market Overview**
- **PE Landscape**
- **PE Opportunities**
- **Government support for PE investment**

Market Overview

Indonesia is experiencing solid economic growth...

- Indonesia is South East Asia's largest economy approaching **\$1.0** Trillion GDP and the **16th** largest economy among **G20** Members
- It's government debt is **24%** of GDP, compared to 88% average for **G20** Members.
- Since the '98 financial crisis, per capita income increased from \$300 to \$4,000, and is expected to reach \$15,000 by 2025.
- However, Indonesia lags behind in all basic indices:
 - **54th** out of **133** countries in the Global Competitiveness Index
 - Infrastructure **84th**, Ports **95th**, Roads **94th**, Health & Education **82nd**

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- About **70%** of Indonesians have access to the power grid – those with power face frequent blackouts. Increasing shortage of fuel for power plants despite Indonesia having one of the largest reserves of thermal coal and gas
- Only **1/3** of households have access to piped water and less than **13%** have piped sewer –
- Being the largest archipelago in the world, it relies heavily on ferries for transportation of people and goods, yet most ferries are rust buckets, ports can't handle the traffic or volume – **6,000** inhabited islands with only **734** ports
- Indonesia is endowed with abundant renewable and natural resources, yet it can't be exploited due to insufficient infrastructure to unlock their usage or move from mines to ports

Indonesia's Infrastructure Investment needs

- Indonesia requires **\$450** billion of new infrastructure investment over the next **5** years to maintain its **6%** growth rate
- Two thirds of this amount (or **\$300** billion) is expected to come from the private sector
- This works-out to **\$60** billion a year, every year...for the next **5** years...

Private Equity Landscape

Improving the Quality and Breadth of PE Opportunities

- 1. Meaningful volume of deal flow suited to PE (equity with real influence or control) has increased considerably.**
- 2. Having adequate deal flow to support in-country-based teams improves the quality of the opportunity as deal origination, structuring and providing advice to the companies, can be done in close proximity and in real time by people embedded in the local market.**

What has driven PE growth in Indonesia?

- 1. PE requires (i) interesting businesses in which to invest, and (ii) access to equity stakes with *influence* over the business.**
- 2. Three trends have increased both the number of businesses and the ability to acquire influence:**
 - Indonesia's move toward a democratic market-based economy is increasing entrepreneurial activity and the number of businesses of interest to PE
 - Indonesia's open trade and capital flows increases both opportunities to expand and competitive pressures, leading to more business owners seeing third party capital as a viable solution.
 - The close identification of family status and wealth with direct ownership of a company reduces as portfolio wealth becomes an option and is seen to work, reducing reluctance to allow in third party equity.

What has driven PE growth in Indonesia?

3. Low Penetration means Room to Grow Further

- Fund raising as a percentage of GDP is low compared to other EMs, indicating much more room to grow.

4. PE Returns are Driven More by Growth than Leverage

- Higher growth and lower leverage makes the source of risk less cyclical and more operational.

5. Growing Domestic or Regional Companies Provide the Deal Flow

- As a result of the trends in deregulation and openness, most of the opportunities are companies targeting growth in Indonesia's domestic markets or Intra- emerging-market growth.

Assessing PE Risk: Perceived vs. Real

1. **Minority Positions Are Too Risky**

Minority positions have performed well in all forms of exit, indicating that the risks associated with minority positions can be managed effectively.

2. **Smaller Companies Are Too Risky**

Experience in deals as small as \$2 million has been positive, suggesting that smaller companies are less risky than commonly perceived.

3. **Attractive Exits Are Not Available**

Average Holding Period = 4.9 years

Attractive exits are happening despite less developed capital markets, although access to an IPO improves returns.

Choosing your In-Country Execution Team

You can decide to:

- a) Build a team
- b) Buy a team
- c) Rent a team



...it's all about ***EXECUTION***....

Opportunities for Private Equity

Opportunities for Private Equity

- **Notable private equity transactions in Indonesia over the last few years have included:**
 - coal and metals mining
 - barging and logistics
 - oil & gas
 - oilfield services
 - power generation
 - banking and consumer financing
 - insurance
 - integrated media
 - retail
 - airlines and air-services
 - telecom towers
 - real estate
- **Key drivers affecting the structure and viability of private equity transactions are foreign ownership limitations, licensing restrictions, and tax issues.**

Key drivers affecting PE transactions

1. Target Company Management

- “Key man” discussions often commence early in a buy-out transaction.
- Typically involve a 2-3 year contract with existing management responsible for maintaining relationships and obtaining regulatory clearances applicable to the business.

2. Club and Group Deals

- These deal arrangements are agreed between private equity syndicates at the offshore level covering cost sharing, exclusivity, each party’s economic share of the investment, and their respective roles in negotiating the transaction.
- This arrangement would be superseded by a formal shareholders’ agreement at the offshore investment vehicle level at the conclusion of the transaction.

Key drivers affecting PE transactions

3. Purchase Agreements

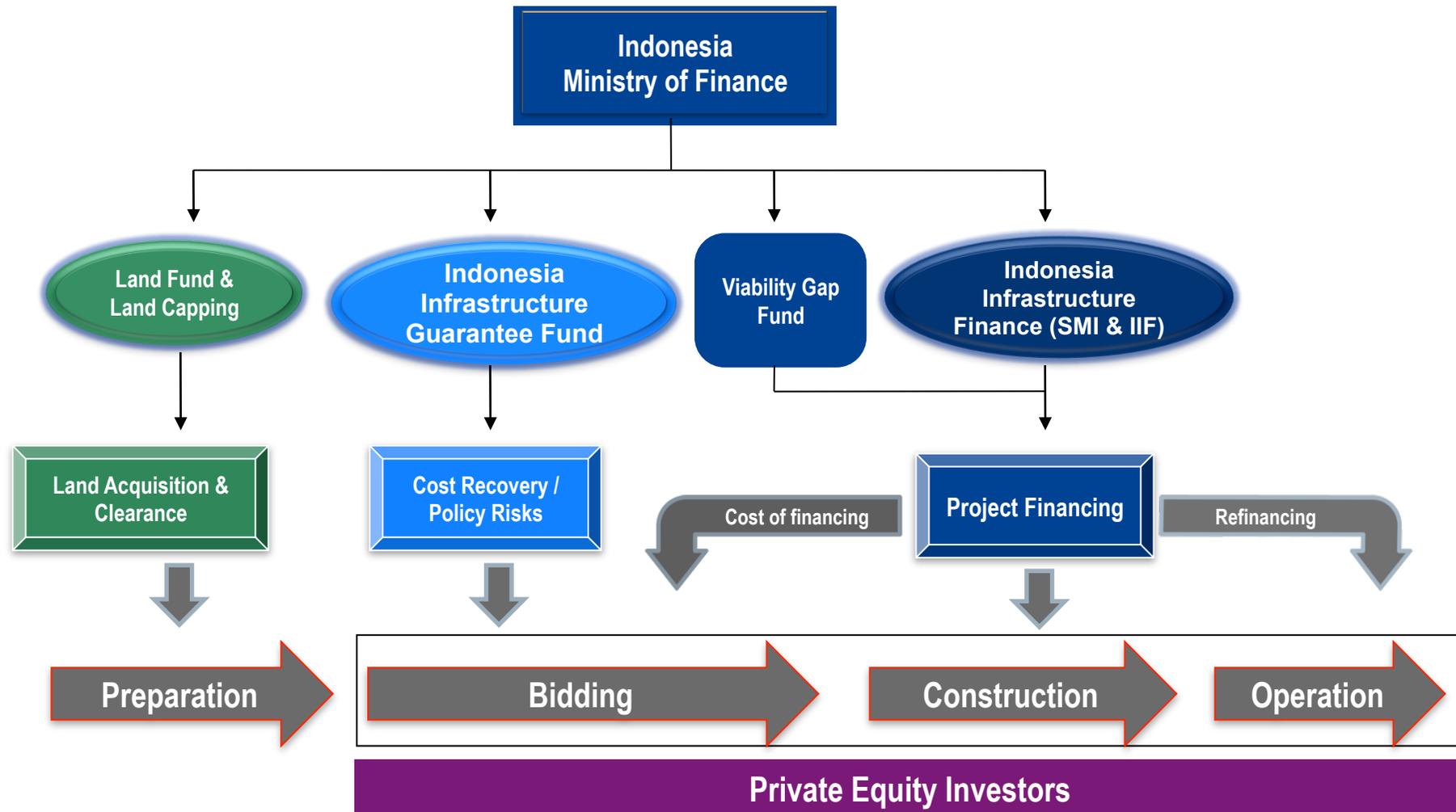
- Vary significantly depending on the negotiating strength of the parties. They tend to be shorter and more focused due to cultural preferences for negotiations to be conducted directly with key decision makers and controlling shareholders.
- Common for buyers to request retentions of purchase price (up to 25%) due to the absence of effective legal remedies for breach of warranties.

4. Exit Strategies

- IPO offering on the Indonesia Stock Exchange (IDX) is commonly preferred for regulatory and tax advantages, and can be accomplished in a reasonable time frame (6 months).
- Other common exits are IPO of an offshore holding company (often in Singapore or Hong Kong), or via trade sale. These need to be structured at the time of investment to mitigate significant tax liabilities.

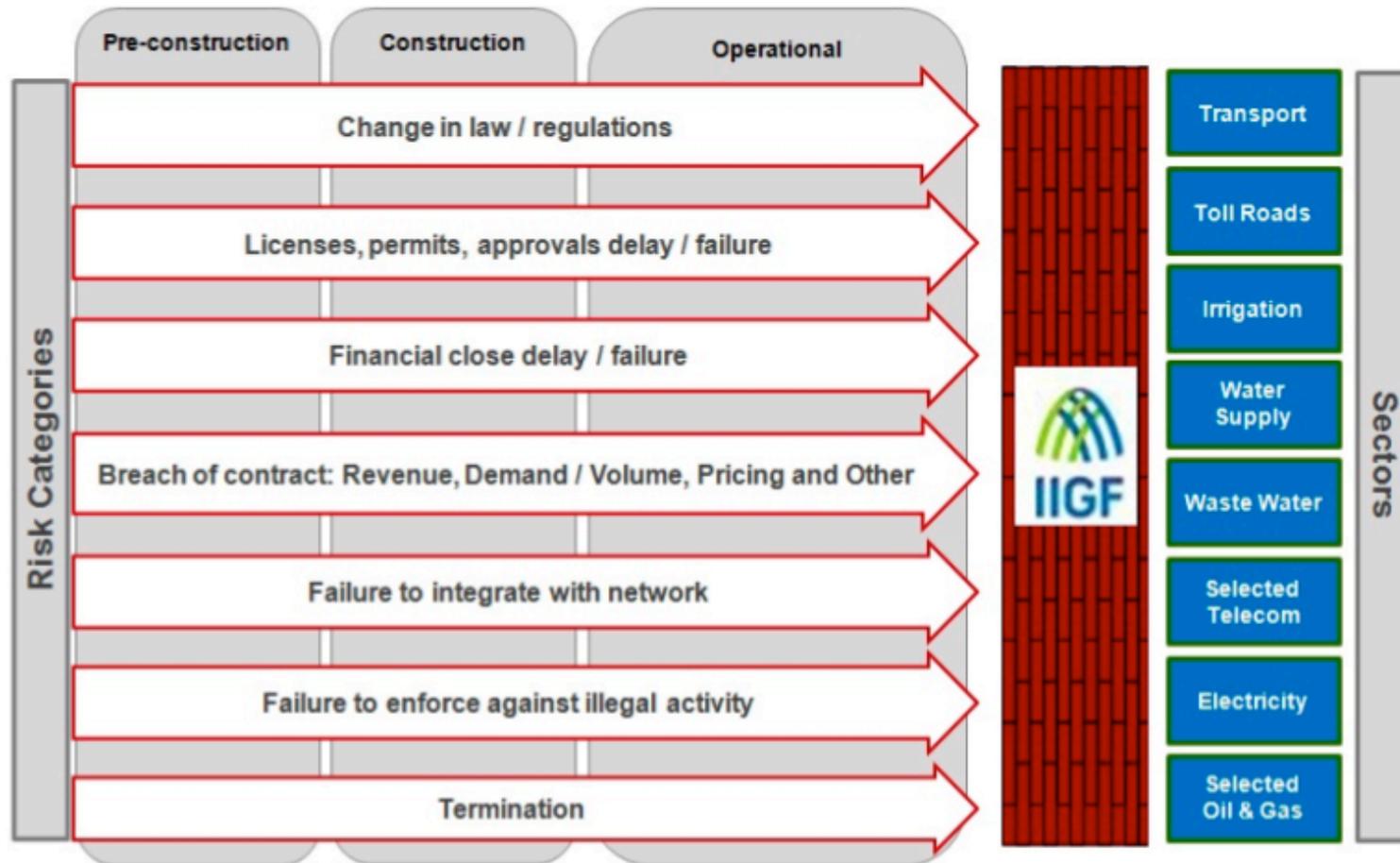
Government support for private equity investment

Government support for PE investment in infrastructure



Indonesia Infrastructure Guarantee Fund (IIGF)

Risk Coverage

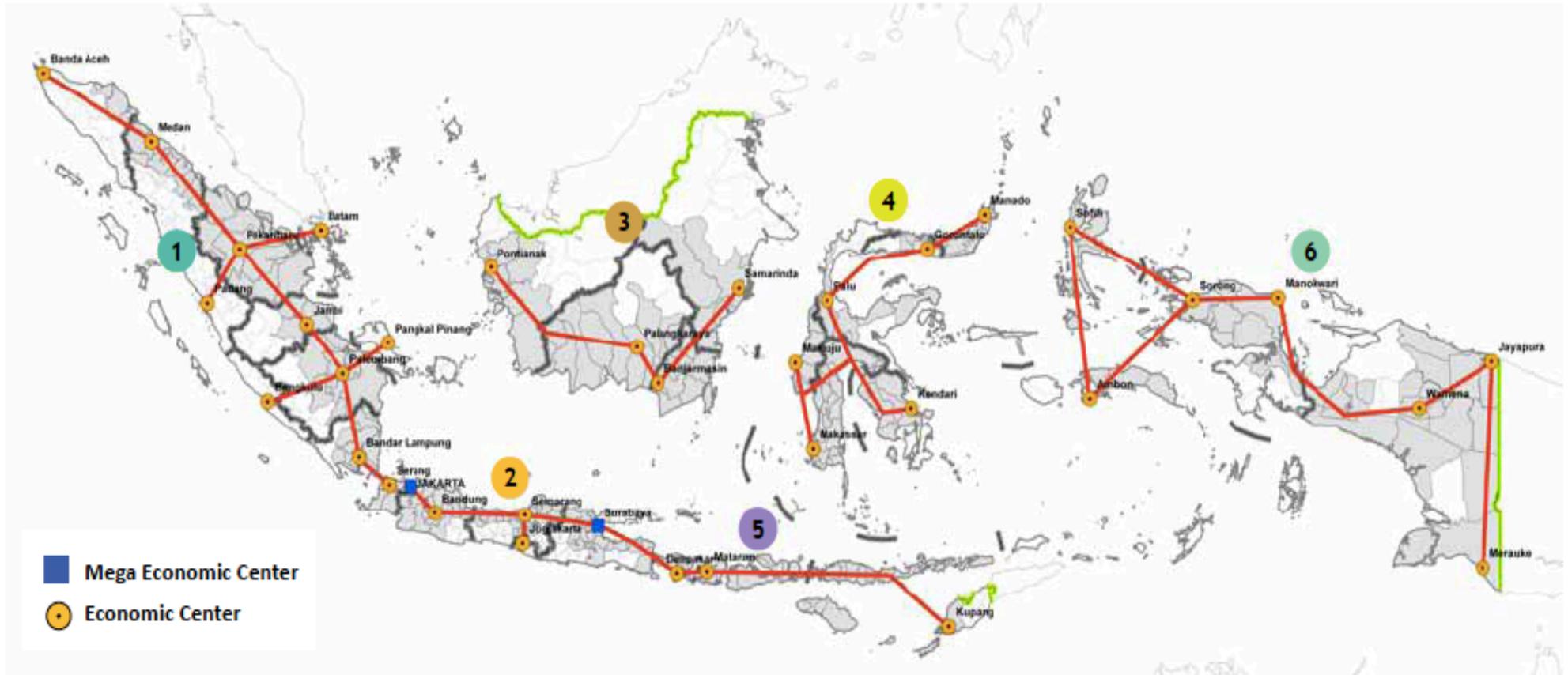


MP3EI: Indonesia's Master Plan for accelerating economic expansion

The Master Plan includes 3 key elements:

1. developing six Indonesia economic corridors, by establishing centers of development within every corridor and developing industry clusters and special economic zones based on advanced commodities resources
2. strengthening national connectivity, which includes intra and inter connectivity of centers development, intra-islands (corridors), and international trade
3. national science and technology acceleration to support the development of the main program.

MP3EI: Six Economic Corridors



- 1 Sumatra EC 2 Java EC 3 Kalimantan EC 4 Sulawesi EC 5 Bali – Nusa Tenggara EC 6 Papua – Kepulauan Maluku EC

MP3EI: 8 programs over 22 economic activities

Program areas:

agriculture, mining, energy, industrial, marine, tourism, telecoms, and new areas.



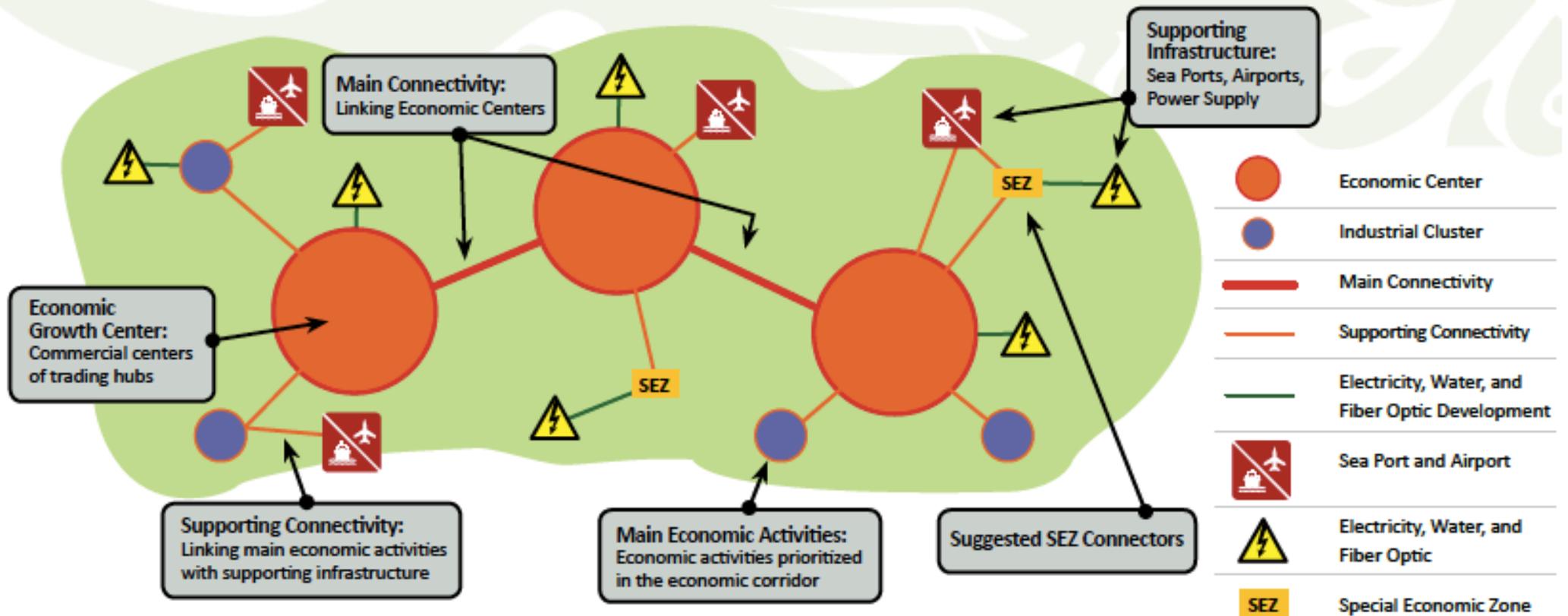
MP3EI: Six Economic Corridors and their themes

Theme of every economic corridor for acceleration and expansion of economic development



MP3EI: strengthening connectivity between economic centers

Indonesia's Economic Corridor Development: The development of main economic activities in the centers of economic growth accompanied by strengthening the connectivity between economic centers, the location of the main economic activities and supporting facilities



Thank You

Bio of Edward Gustely



Edward Gustely is the Co-Founder and Managing Director of Penida Capital Advisors, Ltd. He has over \$30 billion of emerging market experience involving infrastructure and low-carbon investments, capital restructurings and privatizations, and has advised on \$7.5 billion of securitization issues including the successful launch of Indonesia's maiden 30-year global bond. He has played a leading role in building Indonesia's Sovereign Wealth Fund, its Infrastructure Guarantee Fund, and is the Chief Architect of the Indonesia Green Investment Fund launched by Indonesia's President for supporting the country's low-carbon growth plan.

Edward's extensive international career has primarily focused on Asia's emerging markets. He has co-founded several private equity partnerships and served as the Managing Director of Goldhill International where he was responsible for growing its corporate finance and transaction management practice from \$2 million to over \$4.2 billion. He began his professional career with IBM in Germany and the U.S. as a Systems Engineer and Industry Executive. Edward's public sector engagements include serving as the cabinet-appointed Senior Advisor to four-Indonesia Finance Ministers (three awarded Euromoney's 'Finance Minister of the Year'), and to the U.S. Treasury.

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