

Total Technology: Exchanges with Ken Hao

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Following completion of its maiden deal in China, Silver Lake's head of Asia, Kenneth Hao, explains how the US firm's technology-focused investment remit has been translated to Asia.

Silver Lake recently closed its maiden deal in China via a private investment in public equity (PIPE) investment in NASDAQ-listed Spreadtrum. Will PIPEs be a big part of the firm's strategy in Asia?

We absolutely intend to make minority investments in public companies in Asia. We have done it globally and Asia will be no different. These investments are structured so that we can be a true strategic partner to the management team. Minority investments will be a key part of our approach, particularly in Asia where buyouts can be rarer than in other geographies.

Two reasons were stated when Silver Lake expanded into Asia in 2006: 1) To seek out new investment opportunities in the region's technology sector; and 2) To enable existing (Western) portfolio companies to develop business opportunities in the region. Four years on, which of these is most important?

Both are equally important to us. We need to add value to our existing portfolio companies in Asia. It is something our Asia offices in Hong Kong and Japan spend a lot of time and energy on. Almost all of our portfolio companies are global in nature and many of them have been in Asia for a long time – many of them well before Silver Lake even started as a firm. However on a day to day basis, we are spending the bulk of our time developing new relationships and focusing on new opportunities. Back in 2006, two of our senior advisors in Asia spent the majority of their time assisting portfolio companies in other parts of the world. In the middle of 2008, we established an office in Hong Kong and in the beginning of 2009, we opened our office in Tokyo which are staffed with investment professionals focused on finding new opportunities.

Since setting shop in Asia in 2006, the firm has completed three investments in Asia – is the technology industry here mature/big enough to support the firm's investment strategy?

Absolutely. From Silver Lake's perspective, we are focused on the quality of deals, not quantity. Our model is to do a handful of deals a year but they tend to be large scale investments and in companies with a global scale. The footprint and market leadership of companies in Asia and particularly in China, will continue to expand over time. So we are optimistic. In selective situations, particularly in China, we need to be more flexible on deal size and smaller deals may be the only way to invest in these companies. At Silver Lake we are agnostic on deal structure but religious on capturing deal value. We think that our flexibility combined with the potential of Asian technology companies will provide a lot of opportunities.

In your view, is Asia a large enough buyout market?

Time will tell. Asia certainly has a smaller buyout market than markets in the West for a variety of reasons – including the maturity of the market and various cultural reasons. We think the frequency of buyouts will increase in Asia, but it will not be to the same degree as in the West where business owners are more open to buying and selling companies. Within the technology sector, we do expect a relatively small number of buyouts, but it depends on a number of factors that are hard to predict.

How similar or different are the investment opportunities you see in Asia as compared to other key technology markets in the West?

Comparing investment opportunities is difficult to do to a degree. You need to factor in that within Asia itself, the various economies are different. For instance, Japan, Singapore and Taiwan tend to have more mature companies that have been operational for fifteen to twenty years or more – these markets have older companies that have reached a certain position of size and ability. China, as opposed to the more mature economies, is the land of entrepreneurial growth and we are seeing companies that are perhaps less than 10 years old but which are emerging as global players. China has a superior growth profile as compared to the mature economies where companies have characteristics similar to companies in the mature economies of the West.

Is Silver Lake still primarily focused on China and Japan?

We focus primarily on Greater China – which includes Taiwan and Singapore as along with mainland China and Japan. These markets have the major population of technology companies in the Asia Pacific region. We are also spending time on Korea and India and we are impressed with the companies and their management teams in these countries. We will selectively pursue investment opportunities in those regions as well.

What is the toughest challenge the firm has faced in making investments in Asia?

Our single greatest challenge is getting CEOs to understand what is unique about Silver Lake. I would characterise ourselves as a combination of a large scale financial sponsor and a strategic industry participant with a deep relationship base in the technology industry. Getting business owners to understand how to work with us and the fact that we are not just a generalist private equity fund is really our greatest challenge. And it is obviously challenging because a lot of companies here have reconceived notions about what private equity is.

Are regulatory issues pertaining to the technology sector a challenge in the region?

We do encounter these challenges but with proper preparation we have not found them to be a limiting factor. It is a complex issue and very deal specific. I'm not in a position to comment more specifically but can say that it has not been a limiting factor for our investments.

Were Asian technology companies affected significantly in the downturn? What bearing did that have on dealmaking?

The financial chaos had a big impact on dealmaking given the complete lack of visibility on corporate performance and the lack of financing. Since then, Asia in particular has roared back and today most companies are feeling as healthy as they did pre-crisis. Certainly, for a period of time, it was hard for companies to pursue dealmaking and capital raising. In terms of long lasting effects on companies, time will tell. Asia has been through some sobering periods of financial crises and yet, the willingness to take risk, particularly in Greater China, is alive and well and we are optimistic about the future of these deal markets in Asia going forward.

Background:

Kenneth Hao is a Hong Kong-based managing director and head of Asia at technology-focused private equity firm Silver Lake, which has 10 investment professionals in the region across offices in Hong Kong and Tokyo. The firm has invested upwards of \$600 million in three Asian transactions thus far and completed its maiden Chinese investment in March this year. Silver Lake is currently investing from its third buyout fund, which closed on \$9.3 billion in March 2008.