Australian Private Equity &
Venture Capital Association Limited

2014 Yearbook

AUSTRALIAN PRIVATE EQUITY AND VENTURE CAPITAL
ACTIVITY REPORT – NOVEMBER 2014

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FOREWORD

The Australian private equity and venture capital industry underwent a period of positive increased activity in the 2014 financial year, and this has helped to fuel a renewed sense of confidence about the outlook for the year ahead.

Both foreign and domestic investors contributed to a higher fundraising level overall compared to the previous year, but there was a notable change in that the commitments are concentrated to fewer managers as LPs become more selective.

Investment activity has been mixed, with the overall dollar figure down but the number of companies being backed by PE or VC increasing compared to the previous year. This has been in part due to the increased interest of overseas GPs, which underscores the attractiveness of the stable Australian market for foreign capital. The mixed activity could also be attributed in part to Australian PE managers focusing on exiting existing investments while equity capital markets were performing strongly.

The promising divestment environment that arose at the end of the previous financial year continued apace in FY2014, with IPO activity in particular generating attractive divestment opportunities. The year ahead is likely to again see a number of exits via listed markets, which should contribute to the consistent generation of strong returns for investors.

The growing confidence also reflected the developments that have been seen in a number of key policy areas for our industry. Despite the termination of several programmes that supported early stage funding and the startup sector, some long-running policy problems are now being addressed. The Federal Government's Industry Innovation and Competitiveness Agenda announcement in October 2014 included a commitment towards reforming the taxation of Employee Share Schemes, which is good news for startups and the innovation system as a whole. Nonetheless, there are still many areas of business policy, including the work being done as part of the Financial System Inquiry and the upcoming Tax White Paper, which we will continue to be involved in to ensure that Australia fosters a highly competitive environment which attracts investment capital from offshore.

I would like to express my thanks to all the GPs who contributed their valuable time, data and information to AVCAL in the production of this report. I would also like to thank EY, our Research Partner for the seventh year running, for their input and support of our organisation and the industry that we represent.

Yasser El-Ansary
Chief Executive
AVCAL
November 2014

FROM OUR RESEARCH PARTNER

EY is delighted to continue as AVCAL's Research Partner. This is our seventh year in the role, and what a year 2014 has been.

After a number of years experiencing challenging economic conditions, favourable markets enabled GPs to exit a number of long standing portfolio companies, with IPOs accounting for some one third of PE exits. These conditions, and positive exit environment, have enabled PE and VC to outperform the ASX listed benchmark returns and also remain highly competitive against global returns.

The PE and VC sectors are now a well recognised segment of the Australian business landscape, generating strong economic activity and creating jobs and innovative businesses. This success has underpinned the important contribution PE and VC make to the Australian economy. PE and VC, through the broader support of entrepreneurs, is also on the radar of governments, and we are starting to see specific initiatives to support the generation of business activity, particularly to address the global issue of youth unemployment.

EY believes in creating and supporting entrepreneurial spirit, consistent with those objectivities of the PE and VC sectors. EY is proud to continue its research role with this industry, creating objective insights and raising awareness of the activities and success of our clients in this dynamic part of the economy.

We look forward to another great year for investments and continued exit success.

Bryan Zekulich
Oceania Managing Partner, Private Equity
EY
November 2014

EXECUTIVE SUMMARY

Private equity (PE) and venture capital (VC) had a positive FY2014. Aggregate new fundraising commitments increased from the previous year's levels, with most of this being directed towards the larger buyout segment. The generally cautious investment environment for most of the year was counterbalanced by strong exit activity, which saw a high number of PE-backed listings being floated during the year. This helped contribute to very healthy returns being distributed back to Limited Partners in Australian funds.

Some of the key highlights of the year are listed below.

Fundraising:

- $933m was raised by PE funds in FY2014, 30% higher than in FY2013, largely boosted by Quadrant Private Equity's $850m Fund No.4.
- However, the number of PE funds successfully raising new commitments declined to seven, from ten funds the previous year. No new midmarket funds between $200m-$800m were raised.
- The number of deal-by-deal funds and specialist growth funds targeting specific market sectors saw a slight increase, with most raising $10m-$20m with each close.
- VC fundraising for FY2014 fell by 21% to $120m, spread across four funds. New VC entrants included corporate VCs such as the Reinventure Group, and entrepreneur-backed VCs such as Oxygen Ventures.
- For the first time, sovereign wealth funds overtook superannuation/pension funds and fund-of-funds as the largest source of new commitments.
- Asian investors increased their contribution to 24% of all new commitments in FY2014 compared to 13% in FY2013, highlighting the important role that this region is expected to play in the coming years as a source of capital.
- New commitments by domestic investors continued to decline, now accounting for 54% (58% in FY2013) of all commitments to Australian PE and VC.

Investment:

- PE investment fell to $1.96b in FY2014: 28% lower than the previous year. The number of companies invested in was 64, slightly lower than the 67 in FY2013.
- However, increased activity by foreign firms (including US-based Platinum Equity acquiring a stake in Sensis) saw inbound investment rise to almost $1.2b for PE and VC combined, 45% more than in FY2013.
- Total funds invested by the VC sector in FY2014 were dominated by the $250m investment of US-based Insight Venture Partners in Campaign Monitor, a Sydney-based email marketing campaign developer.
- Excluding the Campaign Monitor deal, the dollar amount of VC investment was still 89% higher compared to FY2013, mostly underpinned by continued strong interest in information and communications technology ventures.

Divestments:

- An upturn in Australian equity capital markets saw FY2014 record a surge in PE divestment activity via the listed market, which accounted for 29% of portfolio company exits and 63% of total divestment at cost (the largest proportions seen in the last five years).
- Exit proceeds in FY2014 rose to the highest level seen in the last five years.
- There were 12 PE-backed IPOs during the year, marking the most active year for IPO exits in the last 14 years. The listing of Veda, which was backed by funds advised by Pacific Equity Partners, was the best performing new listing on the ASX for the financial year with a gain of over 58% above its offer price as of 30 June 2014.
- Trade sales remained a popular avenue for exits in FY2014 for PE, with 18 companies divested in FY2014. Secondary exits also rose to the highest level seen in the last ten years.
- The number of companies divested by VCs was 21% lower than in FY2013, but the proceeds from divestment increased by over three and a half times.
- The average holding period for portfolio companies divested in FY2014 was 5.5 years.

ABOUT THE REPORT PARTNERS

AVCAL

Australian Private Equity &
Venture Capital Association Limited

The Australian Private Equity and Venture Capital Association Limited (AVCAL) is a national association which represents the private equity and venture capital industries covering early stage, expansion and management buyouts. Our members include fund managers, investors and advisors who support the industry.

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EY Building a better working world

EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We have a dedicated team of professionals committed to helping our private equity clients and their investee companies achieve their potential. EY will address your investment, transaction and portfolio needs to help deliver the returns your stakeholders expect.

ABOUT THE YEARBOOK

The AVCAL database contains comprehensive data on the activities of 132 venture capital and private equity firms (both active and no longer active). FY2014 figures are based on the activities of 65 venture capital and private equity firms, comprising 44 AVCAL members and 21 non-members. These firms represented $25,121m in funds under management ($2,186m for VC and $22,935m for PE) as of 30 June 2014.

The information was obtained via direct submissions to AVCAL and other sources such as firm websites, press releases and industry news sources. Australian investments and divestments made by global/regional funds are included in the investment and divestment figures. However, global/regional funds are not included in fundraising numbers, unless the fund manager can identify the specific amount allocated to Australian investments.

Total funds under management are based on submissions or estimated amounts. For global/regional funds, these estimates are calculated as funds invested in Australia.

Notes:

1. All annual figures correspond to Australian fiscal years (ending 30 June) except where otherwise stated, e.g. FY2014 refers to the year ending 30 June 2014.
2. All currency units are denominated in Australian dollars unless otherwise stated.
3. All data are from AVCAL's PEREP_Analytics platform, except where otherwise stated.
4. Historical data is updated when new or improved information becomes available. Therefore, the historical data presented in this Yearbook is the most accurate available as of the publication date.

1 FUNDRAISING ACTIVITY

FUNDRAISING ACTIVITY

Total funds raised

Figure 1: Australian VC funds raised by fiscal year (in AUD millions)

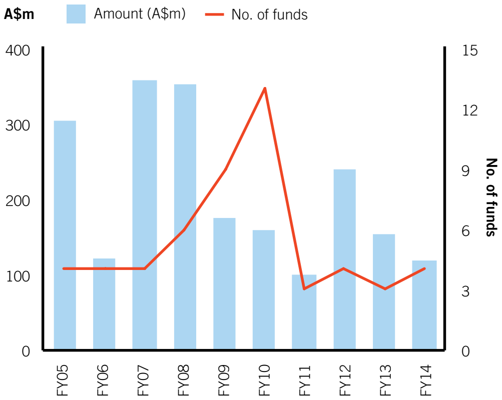
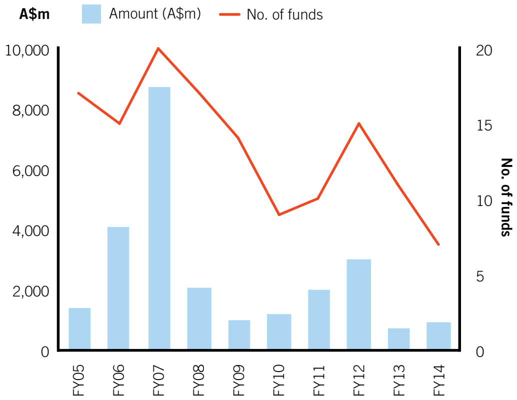


Figure 2: Australian PE funds raised by fiscal year (in AUD millions)



The total amount raised by Australian PE and VC funds rose by 21% in FY2014 to $1.05b, compared to the FY2013 total of $872m.

PE fundraising amounted to $933m in FY2014: an increase of 30% from the previous year's total of $720m, although still below the ten-year average of $2.5b p.a. Only seven PE funds raised money in FY2014, the lowest number since FY2004, reflecting the challenging conditions faced by some segments of the market. Quadrant Private Equity accounted for the majority of the funds raised in FY2014 with the close of its $850m Fund 4 in March 2014.

No new midmarket funds of between $200m to $800m were raised in FY2014, partly reflecting the structural challenges faced by this segment in accessing their traditional investor base, i.e. domestic superannuation funds. However, a number of deal-by-deal funds and niche growth funds (targeting specific industry segments such as aged care, and speciality technology and services) have emerged, typically raising $10m-$20m with each close.

The remainder of the total amount raised in FY2014 consisted of the final closings of PE funds that had raised the majority of their commitments in the previous financial year. These included Anacacia's $150m Fund II, with its final allocation more than three times over-subscribed.

VC fundraising for FY2014 was 21% lower compared to the previous year, totalling $120m across four funds. The termination of the Innovation Investment Fund (IIF) programme announced in the Federal Budget in May 2014 contributed to the tougher fundraising environment for VC firms, leading to no new Government commitments to VC funds for the first time since FY2007.

Corporates and super angels/entrepreneurs have stepped up to partially fill the funding gap for technology ventures at least, with most targeting the early investment stages. Reinventure Group, a $50m VC fund backed by Westpac, was launched in early 2014 to invest in Australian technology ventures. Oxygen Ventures, backed by internet entrepreneur Larry Kestelman, was also launched in 2014 with $50m of investable capital to back digital startups. Blackbird Ventures 2012 Fund also completed a first close, taking the fund to $25m.

FUNDRAISING ACTIVITY

TABLE 1:
Amount of funds raised by fiscal year (in AUD millions)

YEAR	VENTURE CAPITAL		PRIVATE EQUITY		TOTAL	
	AMOUNT (A$m)	NO. OF FUNDS	AMOUNT (A$m)	NO. OF FUNDS	AMOUNT (A$m)	NO. OF FUNDS
FY2005	349.87	6	1,496.35	19	1,846.21	25
FY2006	120.60	4	4,092.69	15	4,213.29	19
FY2007	356.92	4	8,690.04	20	9,046.96	24
FY2008	351.90	6	2,052.88	17	2,404.78	23
FY2009	174.89	9	1,034.57	14	1,209.46	23
FY2010	158.00	13	1,190.00	9	1,348.00	22
FY2011	100.00	3	2,014.79	10	2,114.79	13
FY2012	240.02	4	3,031.26	15	3,271.28	19
FY2013	152.10	3	711.44	10	863.54	13
FY2014	119.57	4	933.27	7	1052.84	11

NOTE:
Total number of funds and the total commitments include first, intermediate and final closings, reinvested gains, interest and dividends, and captive raisings.

Funds raised by investment stage focus

The buyout/later PE segment raised $875m in FY2014: over three and a half times the amount raised in FY2013. However, this was still below the amounts raised in FY2011 ($2.2b) and FY2012 ($1.3b).

There were three buyout/later stage PE funds reporting new commitments, while four growth/expansion stage PE funds raised capital in FY2014.

VC funds that raised money in FY2014 were focussed on early stage VC and balanced VC opportunities, similar to FY2013. No new late-stage VC funds were raised in the last financial year.

TABLE 2:
Funds raised by investment stage focus – amounts raised in FY2014 (in AUD millions)

INVESTMENT STAGE	AMOUNT (A$m)	NO. OF FUNDS
Early/Balanced VC	119.57	4
TOTAL VC	**119.57**	**4**
Growth/Expansion PE	57.95	4
Buyout/Later Stage PE	875.33	3
TOTAL PE	**933.28**	**7**
NEW FUNDS RAISED	**1052.84**	**11**

Sources of new commitments

For the first time, sovereign wealth funds overtook superannuation and fund-of-funds as the largest source of new commitments, accounting for 29% of all funds raised.

Industry super/public pension funds and fund-of-funds accounted for 25% and 21%, respectively, of total new commitments in FY2014. Australian industry super funds accounted for over 70% of total new commitments by local and foreign pension funds, and contributed to 18% of total new commitments by all investor groups to PE and VC.

Just over half (54%) of all new commitments to Australian PE and VC were raised from domestic investors, a slightly lower proportion than the 58% recorded in FY2013. This amounted to $568m and was the third-lowest amount raised from domestic investors in the last ten years after FY2013 and FY2009.

FUNDRAISING ACTIVITY

On the other hand, Asian investors increased their contribution to $255m, from $102m the previous year. This amounted to 24% of all new commitments in FY2014, highlighting the increasingly important role played by regional investors. In contrast, North American and European investors both made up a smaller proportion (15% and 3% respectively) of total funds raised compared to FY2013 (19% and 7% respectively). In fact, new commitments from European investors were at their lowest levels in the last five years.

For the first time in FY2007, there were no new public sector commitments to Australian VC in FY2014. The majority of new VC commitments were from private individuals and corporate backers (with private individuals' commitments recording their highest level in the last ten years, at $68m). With the cessation of new government co-investments, these two segments accounted for 57% and 42% respectively of total new VC commitments raised in FY2014, up from 39% and 29% the previous year.

Figure 3: Sources of new PE and VC commitments in FY2014 by investor type (based on AUD millions)

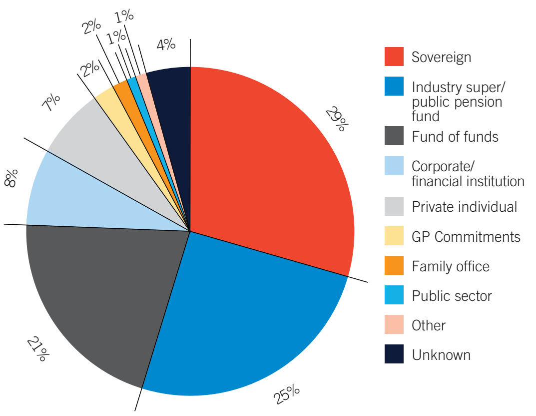


Figure 4: Sources of new PE and VC commitments in FY2014 by region (based on AUD millions)

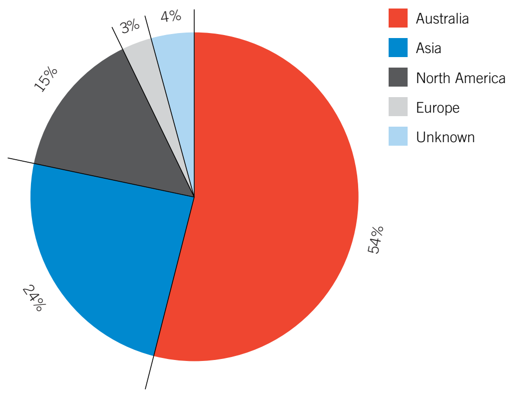


Figure 5: Sources of new VC commitments by investor type, FY2010-FY2014 (in AUD millions)

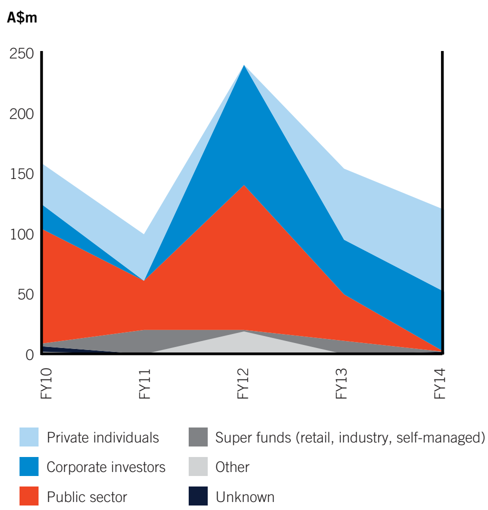
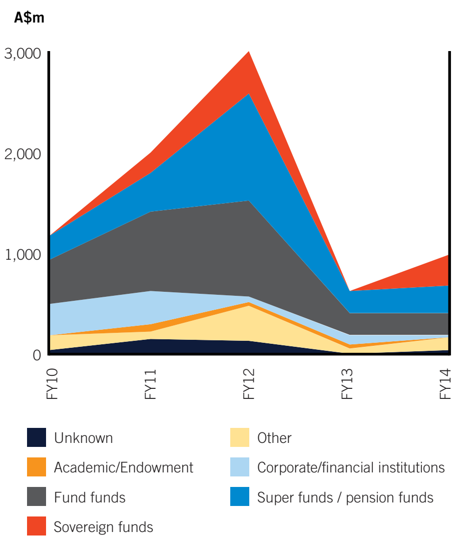


Figure 6: Sources of new PE commitments by investor type, FY2010-FY2014 (in AUD millions)



2 INVESTMENT ACTIVITY

INVESTMENT ACTIVITY

Total investments

Investment activity in FY2014 was supported by continued interest by overseas PE and VC sponsors in Australian businesses, which offset reduced activity by local funds. In addition, new domestic VC funds backed by corporates and high net worth individuals continued to gain ground as active investors in the seed and early stage segments.

Interest by foreign funds saw inbound investment rise to nearly $1.2b for PE and VC combined, 45% more than in FY2013 but 6% lower than in FY2012. This was consistent with overall M&A trends in FY2014, where foreign buyers were seen to be relatively more active in the Australian market than domestic players.

Despite this, however, the total dollar amount of PE and VC investment recorded a 13% drop to $2.5b from $2.9b the year before, with a smaller pool of investable local funds seen participating in deals compared to previous years.

Total PE investment fell to $1.96b, the lowest level since FY2005, with total deal value of $3.5b. The number of companies receiving new investments by PE was also lower at 64, compared to 67 in the previous year.

The largest deal of the year was US-based Platinum Equity's acquisition of a 70% stake in Sensis, Telstra's business listing service, in February 2014 in a deal which valued the business at $649m. Other prominent PE deals in FY2014 included the secondary sale of Retail Zoo by The Riverside Company to Bain Capital, and Quadrant Private Equity's $93m investment in pet products chain City Farmers (which was subsequently sold to pet care company Greencross Limited in early FY2015).

The average PE investment size was at $25m in FY2014, far lower than the previous year's ($34m), as smaller follow-on investments were made in the growth and turnaround segments.

Midmarket PE deals, involving investment amounts between $20m and $150m, accounted for 48% of the total amounted invested by PE, slightly higher from 44% in FY2013. Investments of over $150m accounted for only 3% of PE investments in terms of the number of companies receiving investment, but made up 34% of deal value.

Total VC investment rose nearly four-fold year-on-year to $516m in FY2014. A large part of this increase was attributable to US-based Insight Venture Partners' US$250m (A$266m) investment in Campaign Monitor, a Sydney-based email marketing campaign developer. This was the largest ever single VC investment in an Australian technology company.

Nevertheless, even excluding this single deal, the dollar amount of VC investment in FY2014 was still 89% higher compared to FY2013. This was supported by increased activity by corporate VCs, and to a lesser extent VCs founded by startup entrepreneurs. This increase in early stage investment was also reflective of the continued strength of the domestic entrepreneurial system, particularly in the information and communications technology sector.

Notable new investments included SiteMinder, a hotel distribution platform receiving a US$30m funding round led by US-based Technology Crossover Ventures, Sunverge Energy's US$15m Series B round led by Southern Cross Venture Partners, and Telstra Ventures' investments in Ooyala and Box. Corporate VC investments totalled $72m, the largest ever amount on record for this VC segment, accounting for 14% of total VC investments.

INVESTMENT ACTIVITY

Even excluding the Campaign Monitor deal, the average VC investment size in FY2014 was $2.1m, exceeding previous years' averages ($1.1m in both FY2013 and FY2012), as a number of large cross-border deals pushed up the average. 39% of VC deals in FY2014 were in new investments, 17% higher than in FY2013, the majority of which were in technology startups. However, investment in early stage biotech and life sciences ventures remained muted, with this segment now accounting for only slightly over a tenth of total VC investment (compared to a third in the previous two years).

TABLE 3:
Investments by fiscal year (in AUD millions)

YEAR	VENTURE CAPITAL			PRIVATE EQUITY			TOTAL		
	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs	AMOUNT (AUDm)	NO. OF COMPANIES	NO. OF GPs
FY2005	144.68	74	17	1,400.92	95	32	1,545.60	169	49
FY2006	136.95	68	12	3,128.36	118	36	3,265.31	186	48
FY2007	150.57	69	16	5,837.23	106	36	5,987.80	175	52
FY2008	211.57	77	18	4,194.40	103	40	4,405.97	180	58
FY2009	228.61	98	18	2,491.45	112	45	2,720.06	210	63
FY2010	191.38	94	21	2,155.74	97	40	2,347.12	191	61
FY2011	280.31	79	20	3,779.28	85	39	4,059.59	164	59
FY2012	153.18	88	16	3,055.58	69	33	3,208.76	157	49
FY2013	131.39	71	18	2,725.87	67	34	2,857.26	138	52
FY2014	516.39	93	22	1,957.08	64	34	2,473.47	157	56

Figure 7: VC Investments by fiscal year (in AUD millions)

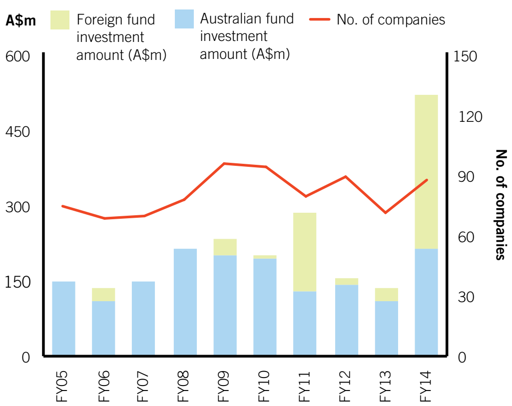


Figure 8: PE Investments by fiscal year (in AUD millions)

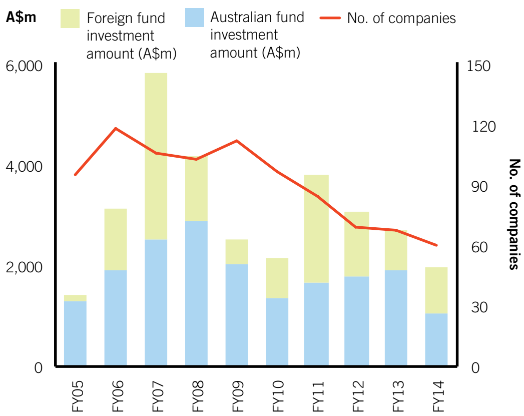
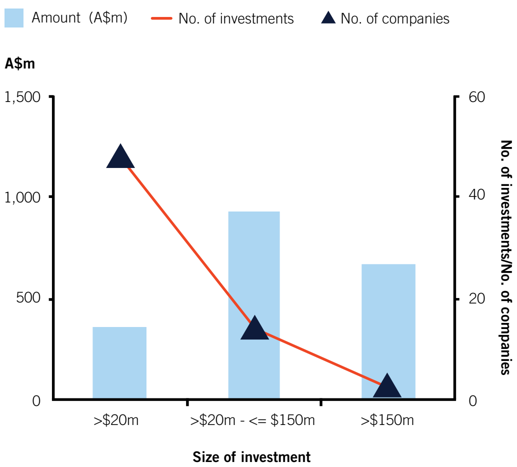


Figure 9: Investments by Australian PE funds in FY2014 by size of investment (in AUD millions)



INVESTMENT ACTIVITY

Distribution of investments by current stage of investee company

Buyouts made up 40% of total investments by dollar value in FY2014, dropping back from more than three quarters of total investment amounts in FY2013. However, several billion-dollar deals either announced or completed in FY2015 – such as Affinity Equity Partners' $314m investment in Virgin Australia's frequent flyer business – indicates continued momentum in the buyout segment in the year ahead.

Secondary transactions picked up in FY2014, with notable deals including Retail Zoo (sold by The Riverside Company to Bain Capital), Guardian Early Learning Group (sold by Wolseley Private Equity to Navis Capital), and Lazard's partial exit of 2XU to L Capital.

Despite a smaller number of companies receiving investment compared to the previous year, expansion/growth capital was once again the most active deal segment, accounting for 25% of the total number receiving investment in FY2014. A number of the larger growth deals were seen in the resources sector, led by funds such as Denham Capital, Resource Capital Funds and Pacific Road Capital.

Rescue/turnaround deal activity in FY2014 was slightly lower than the previous year, contributing 2% of the number of companies that received PE investment, compared to 4% in FY2013.

The majority of local VC activity was at the smaller end of the investment spectrum, reflecting in part the continued scaling down of the industry to predominantly smaller VC fund sizes. 78% of all companies backed by VC in FY2014 were in the seed, start-up and early stage categories, with only 12% or 19 companies receiving late stage VC funding.

Despite far fewer later stage VC deals being completed, this segment contributed 73% of the total VC invested amount at $378m, much higher than the $41m recorded for FY2013. Excluding the $266m Campaign Monitor deal would have seen later stage VC accounting for $111m invested in the remaining 18 later stage ventures receiving capital in FY2014. This amount includes funding for Australian companies and participation in syndicated later-stage rounds for companies based overseas.

TABLE 4: Distribution of investments in FY2014 (by stage of investee company)

NOTE:
Stages with fewer than three companies invested in, including bank debt refinancing, have been aggregated into "Other PE".

STAGE	AMOUNT (AUDm)	% OF TOTAL	NO. OF INV	% OF TOTAL	NO. OF CO.S	% OF TOTAL
Seed	21.79	1%	34	16%	28	18%
Start-up	34.10	1%	29	14%	20	13%
Other early stage	44.48	2%	40	19%	25	16%
Late stage VC	377.88	15%	21	10%	19	12%
Expansion/growth capital	671.75	27%	50	24%	40	25%
Rescue/turnaround	13.53	1%	9	4%	3	2%
Buyout (MBO/MBI/LBO)	1,000.38	40%	14	7%	14	9%
Secondary purchase/replacement capital	302.52	12%	10	5%	10	6%
Other PE	7.05	0.3%	1	0.5%	1	1%
TOTAL INVESTMENTS	**2,473.47**	**100%**	**208**	**100%**	**157**	**100%**

Distribution of investments by company sector

The communications sector made up 75% of VC investment by dollar value in FY2014. Even excluding the $266m Campaign Monitor deal, this sector still made up the largest proportion of VC investment, at 48% of total VC dollars invested.

The healthcare and life sciences sector received $57m of VC investment, $14m higher than in the previous year. However, this sector made up only 11% of total VC investment by dollar value, far lower than the 33% recorded for both FY2012 and FY2013.

The communications sector also accounted for the largest proportion of PE deal value at 25% in FY2014, but only accounted for four companies invested in by PE firms for the year. Notable deals included significant buyouts in the advertising industry, such as Sensis and the purchase of the remaining 50% stake in APN Outdoor by Quadrant Private Equity.

Other popular sectors for PE investment in FY2014 included energy & environment and healthcare, with notable deals including Denham Capital's $200m investment in newly-established Pembroke Resources and Quadrant Private Equity's $175m buyout of Estia Health.

Figure 10: VC investments by sector in FY2014 (based on AUD millions)

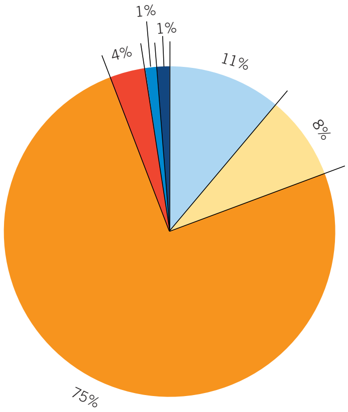
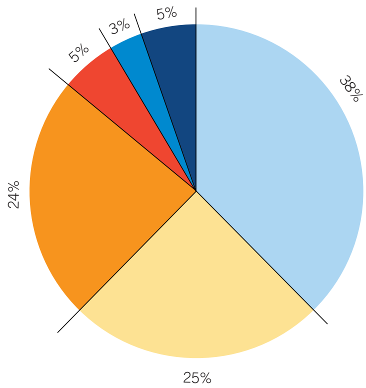


Figure 11: VC investments by sector in FY2014 (based on number of companies)



NOTE:
Sectors with fewer than three companies receiving investments have been aggregated into "Other"..

Figure 12: PE investments by sector in FY2014 (based on AUD millions)

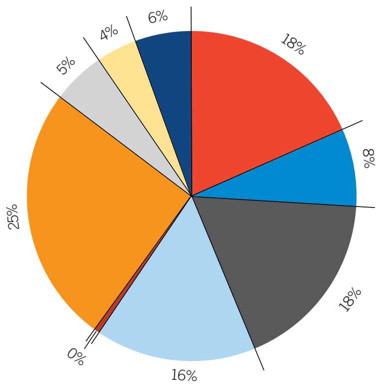
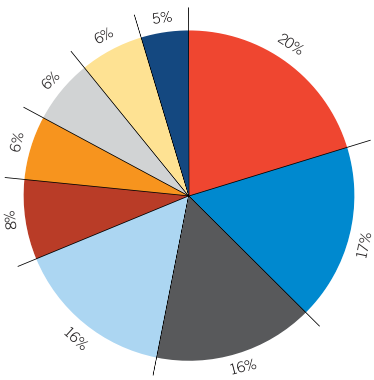


Figure 13: PE investments by sector in FY2014 (based on number of companies)



INVESTMENT ACTIVITY

TABLE 5:
Distribution of investments in FY2014 (by sector)

NOTE:
Sectors with fewer than three companies receiving investments have been aggregated into "Other".

SECTOR	AMOUNT (AUDm)	% OF TOTAL	NO. OF INV	% OF TOTAL	NO. OF CO.S	% OF TOTAL
Business and industrial products	101.62	4%	7	3%	6	4%
Business and industrial services	10.12	0.4%	12	6%	5	3%
Communications	880.74	36%	35	17%	26	17%
Computer and consumer electronics	120.95	5%	32	15%	27	17%
Consumer goods and retail	154.12	6%	17	8%	14	9%
Consumer services	346.47	14%	10	5%	10	6%
Energy and environment	379.21	15%	26	13%	18	11%
Financial services	112.93	5%	4	2%	4	3%
Healthcare and life sciences	366.18	15%	63	30%	45	29%
Other	1.13	0.0%	2	1%	2	1%
TOTAL INVESTMENTS	**2,473.47**	**100%**	**208**	**100%**	**157**	**100%**
Subtotal High-tech	558.26	23%	116	56%	84	54%
Subtotal cleantech	24.22	1%	9	4%	9	6%

Distribution of investments by geographical location

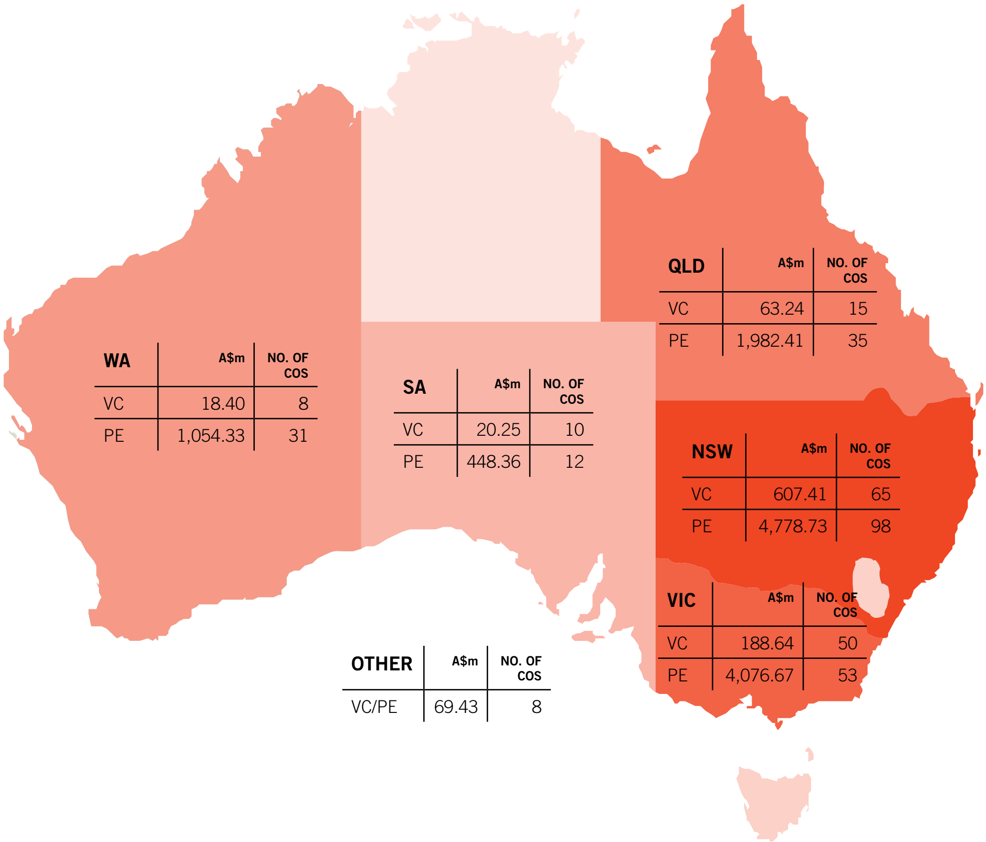
Within Australia, $1.65b or 67% of PE and VC investment (in dollar terms) went to companies headquartered in New South Wales in FY2014. These included the two biggest deals of the year: Sensis and Campaign Monitor. This was $532m more compared to the previous year.

New South Wales accounted for just over a third of companies receiving investment during FY2014, followed by Victoria (22%) and Queensland (11%).

The share of New Zealand-headquartered companies receiving PE and VC investment by Australian funds in FY2014 dropped significantly compared to previous years. A total of $17m was invested (compared to $98m in FY2013 and $58m in FY2012), including a syndicate of VCs which included Square Peg Capital investing in New Zealand-based retail software provider Vend in a US$20m round.

North American companies accounted for $127m of investments by Australian PE and VC, far higher than the $51m recorded in FY2013. This was largely attributable to VC investment in startups based in the US, and investment by resources PE funds in offshore mining companies.

Figure 14: Distribution of Australian investments in FY2010 - FY2014 (by location of company headquarters)



LOCATION	AMOUNT (AUDm)	% OF TOTAL	NO. OF INV	% OF TOTAL	NO. OF CO.S	% OF TOTAL
Australia	**2,286.92**	**92%**	**155**	**75%**	**116**	**74%**
New South Wales	1,652.05	67%	67	32%	54	34%
Victoria	368.46	15%	52	25%	34	22%
Western Australia	169.63	7%	6	3%	5	3%
Queensland	88.35	4%	24	12%	17	11%
South Australia	7.30	0.3%	3	1%	3	2%
ACT	1.13	0.05%	3	1%	3	2%
New Zealand	**16.96**	**0.7%**	**3**	**1%**	**3**	**2%**
North America	**127.13**	**5%**	**45**	**22%**	**35**	**22%**
Other	**42.44**	**2%**	**5**	**2%**	**3**	**2%**
TOTAL INVESTMENT	**2,473.47**	**100%**	**208**	**100%**	**157**	**100%**

TABLE 6:
Distribution of investments in FY2014 (by location of company headquarters)

NOTE:
States/countries with fewer than three companies receiving investments have been aggregated into “Other”.

Total investee companies in VC and PE portfolios

The total number of investee companies in VC and PE portfolios as of 30 June 2014 was 558, slightly lower than the 573 recorded in FY2013.

Careful investment activity and a more positive divestment environment for PE funds resulted in the number of companies remaining in PE portfolios falling to 294, from 344 in the previous year.[1]

38% of all PE and VC-backed companies held in portfolios were classified as high-tech, whilst there were 44 cleantech companies in VC and PE portfolios, such as Hydrexia, Peak3 and OneWind Australia.

TABLE 7:
Number of investee companies in VC and PE portfolios as of 30 June 2014

	VENTURE CAPITAL	PRIVATE EQUITY	TOTAL
TOTAL NUMBER OF COMPANIES	**269**	**294**	**558**
Subtotal: no. of high-tech companies	189	29	213
Subtotal: no. of cleantech companies	28	16	44

NOTE:
High-tech and cleantech are not mutually exclusive. Moreover, a given high-tech or cleantech company can be backed by a venture capital fund and a private equity fund. See glossary for the definitions of high-tech and cleantech companies.

[1] Coverage for VC firms has been increased from previous years, and this has seen the number of recorded companies in VC portfolios increase as a result.

3 DIVESTMENT ACTIVITY

DIVESTMENT ACTIVITY

Distribution of divestments by exit methods

Exit proceeds in FY2014 rose to the highest level seen in the last five years, on the back of improved sentiment in capital markets generally. This saw a surge in divestment activity via the listed market, which accounted for 29% of portfolio companies exited and 60% of total divestment at cost. There were 12 PE-backed IPOs during the year, marking the most active year for IPO exits on record.

PE-backed IPOs performed well in FY2014. The listing of Veda, which was backed by funds advised by Pacific Equity Partners, was the best performing new listing on the ASX for the financial year with a gain of over 58% above its offer price as of 30 June 2014. Other notable post-IPO performers included OzForex (divested by The Carlyle Group and Accel Partners – up 32%), iSentia (divested by Quadrant Private Equity – up 16%), and Burson Auto Parts (divested by Quadrant Private Equity – up 16%).[2]

In a shift from many previous IPO exits in Australia, more sponsors are agreeing to retain a significant stake on listing, and including voluntary escrow or deferred consideration arrangements rather than fully selling down their holdings at the IPO.[3] There was also increased use of cornerstone investors to back new floats.

Trade sales remained a popular avenue for exits in FY2014 for PE, with 18 companies divested in FY2014. Notable trade sales included Pacific Equity Partners' sale of Peters Ice Cream to UK-based ice cream maker R&R, and CHAMP Private Equity's exit from Centric Wealth, a wealth management business, to Financial Index Wealth Accountants (Findex).

Secondary exits also rose to the highest level seen in the last ten years, including the sale of Riverside-owned Retail Zoo to Bain Capital, and transport company LCR being acquired by Archer Capital from CHAMP Private Equity.

A number of VC-backed companies were acquired by overseas buyers via trade sale, including the sale of Lithicon (backed by ANU Connect Ventures) to US-based FEI Company, and the acquisition of Mesaplexx (a company funded by Southern Cross Venture Partners and Talu Ventures) by Nokia, headquartered in Finland. While the number of companies divested by VCs was 21% lower than in FY2013, the proceeds from divestment increased by over three and a half times.

The positive divestment environment has seen PE and VC after-fee returns over the one-year period ending 30 June 2014 reach 22%, based on Cambridge Associates data, beating the listed market by almost 5%. Over a 15-year period, PE and VC outperformed listed equities by 3.5%, with annualised returns of 12% compared to 8.6% for listed equities, highlighting the long-term performance of the asset class.

The average holding period for portfolio companies divested in FY2014 was 5.5 years, similar to the previous two years (5.5 in FY2013 and 5.6 in FY2012). Whilst the FY2014 figure is higher than the ten-year average of 4.9 years, the favourable exit environment may result in the average holding period decreasing again to match this long-run average.

[2] The numbers do not include ASX listings of overseas-based companies backed by PE or VC, such as the ASX listing of satellite firm SpeedCast (which is headquartered in Hong Kong) by TA Associates .

[3] Note that exits are only included in the recorded totals if full or partial consideration was realised by the GP during the financial year.

DIVESTMENT ACTIVITY

Figure 15: Divestments by Australian VC funds by fiscal year (in AUD millions)

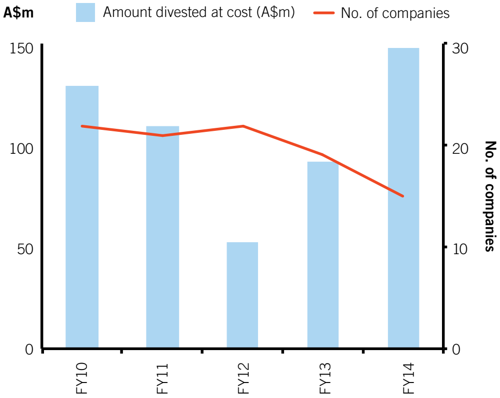


Figure 16: Divestments by Australian PE funds by fiscal year (in AUD millions)

TABLE 8: Divestment by exit routes in FY2014

	VENTURE CAPITAL		PRIVATE EQUITY		TOTAL	
TYPE OF DIVESTMENT	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**	**DIVESTMENT AT COST (AUDm)**	**NO. OF CO.S**
Divestment by trade sale	26.78	4	613.31	18	640.09	22
Divestment on flotation (IPO)	35.00	*	1,153.10	12	1,188.10	*
Sale of equity post-flotation	6.06	*	607.95	5	614.01	*
Divestment by write-off	60.40	6	33.25	3	93.65	9
Repayment of preference shares/loans	N/A	N/A	148.44	4	148.44	4
Secondary sale	7.41	*	242.15	10	249.56	*
Other	12.31	1	58.24	6	70.55	7
TOTAL DIVESTMENTS	**147.96**	**15**	**2,856.43**	**55**	**3,004.39**	**69**

NOTE:
Divestment types with fewer than three companies have been aggregated into "Other". Divestments by public offering are not included in the totals unless the investment has been realised partially or in full during the financial year.

* Not available for publication but included in totals where applicable.

Distribution of divestments by sector

There was healthy appetite for PE divestments over a wide range of sectors in FY2014. The two largest sectors with exits occurring were consumer goods and retail and consumer services, both accounting for 14% of divested companies. Exits for these sectors included the Spotless IPO (consumer services), and Anacacia Capital's sale of baby food maker Rafferty's Garden (consumer goods and retail).

Business and industrial services was also a prominent sector for PE exits, accounting for 11% of companies exited and 21% of the dollar amount divested in FY2014. Examples such as the Veda IPO, the secondary sale of LCR Group, and the trade sale of Anchorage Capital Partners-backed Total Eden to Ruralco show the varied exit options available to GPs in this sector. The communications sector accounted for 11% of all PE-backed companies divested (including the listing of iSentia on the ASX in June 2014), similar to the 10% figure recorded in FY2013.

Two thirds of VC-backed companies exited in FY2014 came from the life sciences sector, accounting for 39% of the total amount divested at cost.

15 high-tech companies were exited in FY2014, including OzForex, which was listed by Accel Partners and the Carlyle Group on the ASX in October 2013 and was trading at 32% above the offer price as of 30 June 2014. Four cleantech companies were divested in FY2014, including Global Renewables, a waste treatment operator owned by Ironbridge, which was sold in November 2013 to infrastructure manager Palisade Investment Partners.

DIVESTMENT ACTIVITY

Figure 17: VC divestment at cost by sector in FY2014 (based on AUD millions)

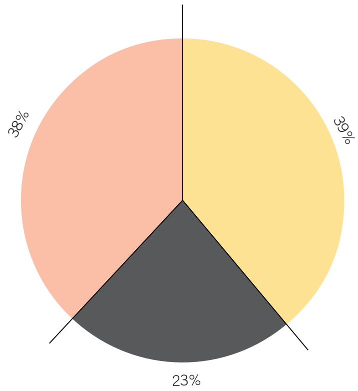
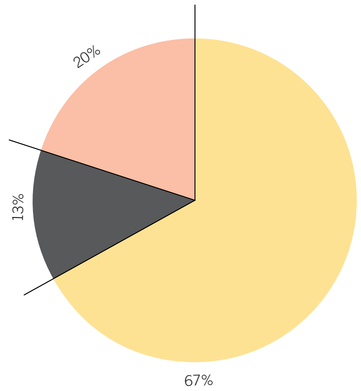


Figure 18: VC divestments by sector in FY2014 (based on number of companies)



- Healthcare and life sciences
- Computer and consumer electronics
- Other

Figure 19: PE divestment at cost by sector in FY2014 (based on AUD millions)

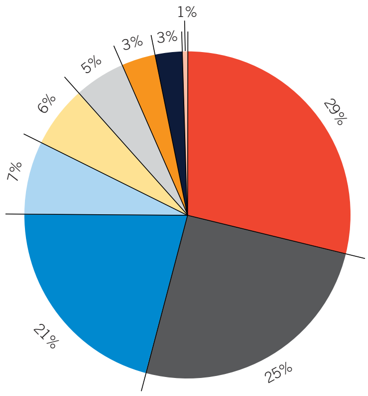
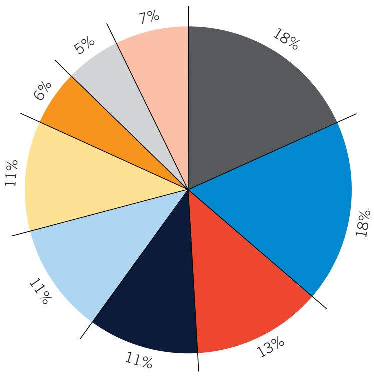


Figure 20: PE divestments by sector in FY2014 (based on number of companies)



- Business and industrial services
- Consumer goods and retail
- Consumer services: other
- Financial services
- Healthcare and life sciences
- Transportation
- Energy and environment
- Communications
- Other

TABLE 9:
Divestment by sector in FY2014

NOTE:
Sectors with fewer than three companies divested have been aggregated into "Other".

SECTOR	AMOUNT (AUDm)	% OF TOTAL	NO. OF DIV	% OF TOTAL	NO. OF CO.S	% OF TOTAL
Business and industrial services	724.87	24%	8	9%	8	12%
Communications	169.1	6%	8	9%	7	10%
Computer and consumer electronics	36.82	1%	6	7%	3	4%
Consumer goods and retail	643.74	21%	10	11%	10	14%
Consumer services: other	549.54	18%	12	13%	10	14%
Energy and environment	82.77	3%	3	3%	3	4%
Financial services	264.18	9%	9	10%	6	9%
Healthcare and life sciences	210.45	7%	25	28%	16	23%
Transportation	128.8	4%	4	4%	3	4%
Other	194.12	6%	5	6%	3	4%
TOTAL DIVESTMENTS	**3,004.39**	**100%**	**90**	**100%**	**69**	**100%**
Subtotal High-tech	220.76	7%	24	27%	15	22%
Subtotal cleantech	97.56	3%	4	4%	4	6%

METHODOLOGY & GLOSSARY

METHODOLOGY

SAMPLE

FY2014 figures are based on the activities of 65 venture capital and private equity firms, comprising 44 AVCAL members and 21 non-members. Of this number, 46 submitted data directly to AVCAL, representing 81% of total Australian funds under management. Publicly available information from firm websites, press releases and industry news sources was used to estimate the activities of the remaining firms. The sample does not include fund-of-funds, infrastructure or real estate funds.

Firms that participate in the survey benefit in the following areas:

– Access to more detailed industry data (see http://www.avcal.com.au/stats-research/statistics-research for details).
– Customised research reports by request.

Non-AVCAL members are also eligible to participate in the survey; however, they will need to contact research@avcal.com.au to receive individual login details to the PEREP_Analytics platform.

DATA COLLECTION

Participants have the choice of providing data via the secure online PEREP_Analytics platform, or through standardised Excel spread sheet templates which are then uploaded by AVCAL research staff into the online platform.

The data collection exercise is complemented by the use of public sources of information (e.g. firms' websites, press releases, news reports). This data is used for the following purposes:

– To pre-populate the database. The participant then either validates or edits this pre-populated information as necessary.
– To reduce response errors and verify accuracy of responses.
– To fill in missing information where such data is not provided directly.

Each submitted piece of information is reviewed according to a systematic process of quality checks, of which a certain number of checks are built into the PEREP platform. AVCAL research staff also contact the participating firms where necessary to seek further clarifications on the data provided.

EXCHANGE RATES

The Yearbook's default currency is the Australian dollar (AUD). PEREP_Analytics automatically converts non-AUD fundraisings, investments, and divestments to AUD at the Reserve Bank of Australia's spot foreign exchange rates (which can be found here: http://www.rba.gov.au/statistics/frequency/exchange-rates.html) on the date of the fund's reported close or investment/divestment date. If no exchange rate is available for a given fundraising or transaction date, the exchange rate of the previous available date is used.

FUNDRAISING

Fundraising amounts

These figures record the amount of commitments received as of a first, intermediate or final fund closing occurring within a particular financial year. It refers to the incremental commitments raised during a particular period. If a fund has had successive closings over more than one reporting period, only the incremental amount raised during the reporting period is included.

Fundraising by location of fund management office

The fund country is defined by the location of the advisory team, not by the place of incorporation of the fund for tax reasons. Global/regional VC and PE firms headquartered outside of Australia – including those with Australian offices – with funds that invest in Australia are not included in total funds under management or fundraising numbers, unless the fund manager can identify the specific amount allocated to Australian investments. However, investments/divestments made by these funds are included in the investment/divestment results.

INVESTMENTS AND DIVESTMENTS

Important parameters apply to the measurement of investments and divestments:

– Only investments and divestments derived from VC or PE funds are included. If a deal involves non-VC or non-PE co-investors, only the investment from VC or PE vehicles is included in the total amounts invested.
– The activities of global/regional VC and PE funds that are active in Australia are included in the investment and divestment aggregates.
– While ad hoc investments into real estate or infrastructure deals made by qualifying funds are captured, any investments made by dedicated real estate or infrastructure funds are not captured (as these funds do not qualify as part of the universe of eligible funds in the sample).

METHODOLOGY

Amount of Investment

This refers to capital (in the form of equity, convertible equity, mezzanine, unsecured debt or secured debt) invested by the PE or VC fund. It does not refer to the deal's transaction/enterprise value. Debt provided by third parties as part of a deal is not included in the investment figures, unless the debt is provided by VC or PE funds. This means that external bank debt, for example, is not included in the calculation of investment totals.

Number of investments

The number of investments is calculated based on the number of investments made by each reporting investment vehicle. For example, if a PE firm that manages three separate funds invests in a company using capital from each of these funds, then this is counted as three investments. New and follow-on investments are counted as separate investments. For syndicated deals, the investment attributable to each vehicle in the syndicate is counted as a separate investment.

Number of companies invested in

This refers to the companies receiving VC or PE investment. Companies with multiple VC or PE investors are only counted once under "number of companies" except for the instances described below under "Distribution of investments by stage of investee company" and "Sectoral distribution of investments".

Distribution of investments by stage of investee company

The total number of companies in the relevant table corresponds to the number of portfolio companies that received PE or VC investments with respect to their stage. Because a company can be recorded under different investment stages over successive funding rounds, the sum of the number of companies in all stages can thus exceed the actual number of companies that receive investment. For a company receiving multiple rounds of financing a year – for example, an early stage venture investment of $100m by one investor, followed by a later stage venture investment of $200m by two investors in the same company in the same financial year – the table would indicate the following:

INVESTMENT STAGE	AMOUNT (AUDm)	NO. OF INV	NO. OF CO.S
Early stage VC	100	1	1
Later stage VC	200	2	1
TOTAL INVESTMENT	300	3	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

Sectoral distribution of investments

The total number of companies in the relevant corresponds to the number of portfolio companies that received PE or VC investments with respect to their business sector. Because GPs that are part of a syndicate may record the same portfolio company under different sectors, a small number of companies can be recorded under more than one business sector. The sum of the number of companies in all sectors can thus exceed the actual number of companies that receive investment. For example, for a syndicated deal involving two investors, with one investing $100m and the other $200m in the same company but with both independently reporting different business sectors for the target company, the table would indicate the following:

SECTOR	AMOUNT (AUDm)	NO. OF INV	NO. OF CO.S
Business and industrial products	100	1	1
Business and industrial services	200	1	1
TOTAL INVESTMENTS	300	2	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

METHODOLOGY

Number of divestments

This is based on each fund's exit from an investee company (e.g. two funds exiting the same company will be counted twice). Partial divestments are included in this number. A company could have had a number of divestments made from it in any particular year.

Number of companies being divested

This is the number of companies where there have been full or partial exits during a given reporting period. A company will only be counted once even if two or more funds are exiting from that company, or if multiple partial exits from the company have been made in any particular year.

Exit method

This refers to the means by which the divestment occurs. If the divestment is to a syndicate made of various types of buyers (e.g. a corporate, management and another buyout firm), the splits by divestment method would need to reflect the respective divestment methods (e.g. divestments by trade sale, sale to management and sale to another private equity firm). Similarly, partial divestments through different methods would need to reflect the respective divestment methods at each partial divestment.

Sectoral distribution of divestments

The total number of companies in the relevant table corresponds to the number of portfolio companies that were divested by VC or PE funds with respect to their business sector. Because GPs that are part of a syndicate may record the same portfolio company under different sectors, a small number of companies can be recorded under more than one business sector. The sum of the number of companies in all sectors can thus exceed the actual number of companies that were divested. For example, for a syndicated divestment involving two investors, with one divesting $100m at cost and the other $200m at cost from the same company but with both independently reporting different business sectors for the target company, the table would indicate the following:

SECTOR	AMOUNT DIVESTED AT COST (AUDm)	NO. OF DIV	NO. OF CO.S
Business and industrial products	100	1	1
Business and industrial services	200	2	1
TOTAL DIVESTMENTS	300	3	1

This will only affect counts of companies – it does not affect amounts – and makes any average more accurate.

GLOSSARY

A – M

Balanced VC fund Venture capital funds focused on both early stage and development with no particular concentration on either.

Buyout/Later stage PE fund Private equity funds whose strategy is to acquire other businesses.

Calendar year Year ending 31 December.

Captive funds Funds that are 100% owned by the parent organisation.

Cleantech Covers a diverse range of products, services, and processes that are inherently designed to provide superior performance at lower costs, greatly reduce or eliminate environmental impacts and, in doing so, improve the quality of life. Clean technologies span many industries such as Agriculture, Energy, Manufacturing, Transportation and Water.

Closing A closing is reached when a certain amount of money has been committed to a private equity or venture capital fund by investors. Several intermediate closings can occur (the initial one is called first closing), which allow the GPs to draw capital for investments while they are still finalising the fundraising. Some funds only have one (final) closing. The fundraising is captured at the date of commitment (when the closings are formalised) where possible. For evergreen funds their closings are always classified as intermediate closings.

Convertible equity Non-equity securities which are convertible to equity.

Corporate investor Corporations that deliver non-financial goods/services (excludes banks, fund-of-funds, insurance companies, pension funds, and other asset managers).

Distressed debt fund Funds that primarily invest in companies with undervalued debt that have either filed for bankruptcy protection or likely to be bankrupt in the near future with an intention to reorganise and reinstate the company as going concern.

Divestment A full or partial exit from an investee company.

Early stage VC fund Financing to companies that have completed the product development stage and require further funds to initiate commercial manufacturing and sales. They will typically have a proven concept, with minimal products but negative earnings. In most cases the product has not yet been commercialised. They will not yet be generating a profit.

Equity Ownership interest in a corporation, represented by the shares of stock, which are held by investors.

Fiscal year Year ending 30 June.

Fund-of-funds A private equity fund that primarily takes equity positions in other private equity funds.

Funds under management The total amount of funds available to fund managers for future investments plus the amount of funds already invested (at cost) and not yet divested. Excludes fund-of-funds, real estate funds, infrastructure funds, and venture credit funds.

Generalist fund Funds with either a stated focus of investing in all stages of private equity investment, or funds with a broad area of investment activity.

GP General partner. A class of partner in a partnership, the general partner retains liability for the actions of the partnership.

Growth/Expansion PE fund Funds whose strategy is to invest in or acquire relatively mature companies that are looking for capital to expand or restructure operations; they often provide the first private equity investment in a company.

High-tech A company with exclusive ownership of certain intellectual property rights such as design rights, patents, copyrights, etc. which are critical elements in adding value to the products and business of a company and which are being developed in-house by the company's permanent staff. Although companies possessing these attributes are not limited to specific industries, they are most frequently found in telecommunications hardware, internet technology, computer products and services, electronics, biotechnology, medical instruments and devices.

Independent funds Semi-captive funds (those in which the parent owns less than 100%) as well as wholly independent funds.

Investment Capital (in the form of equity, convertible equity, mezzanine, unsecured debt or secured debt) invested by the fund. It does not refer to the deal's transaction value/enterprise value.

IPO Initial public offering.

Later stage VC fund A venture capital fund focused on investments in later-stage companies in need of expansion capital, usually providing third- or fourth- (or a subsequent) round of venture investments.

LP Limited partner. An investor in a limited partnership, they are generally protected from legal actions and any losses beyond their original investment.

Management buy-out (MBO) Financing provided to enable current operating management and investors to acquire an existing product line or business.

Management buy-in (MBI) Financing provided to enable a manager or group of managers from outside the company to buy-in to the company with the support of private equity investors.

Mezzanine fund or Mezzanine financing Mezzanine funds are funds which provide (generally subordinated) debt to facilitate the financing of buyouts, frequently alongside a right to some of the equity upside. Mezzanine financing is loan finance that is halfway between equity and secured debt, either unsecured or with junior access to security.

GLOSSARY
P – Z

PIPE A private investment in public equity (PIPE), as a minority or majority stake, without taking the company private.

Portfolio companies Companies the private equity firm have invested in and have not fully divested.

Private Equity Private Equity covers growth/expansion, generalist, buyout/later stage, turnaround, secondary and mezzanine funds.

Private Pension Fund A pension fund that is regulated under private sector law.

Proceeds Total proceeds realised from the sale of a portfolio company net of debt, transaction, and other costs.

Public Pension Fund A pension fund that is regulated under public sector law.

Public-to-private A transaction involving an offer for the entire share capital of a listed target company for the purpose of delisting the company; management may be involved in the offering.

Refinancing bank debt To reduce a company's level of gearing.

Repayment of preference shares/loans If the private equity firm provided loans or bought preference shares in the company at the time of investment, then their repayment according to the amortisation schedule represents a decrease of the financial claim of the firm into the company, and hence a divestment.

Rescue/Turnaround Investment in companies with poor performance with an intention to achieve a positive performance reversal.

Sale of quoted equity post-flotation Sale of quoted shares by a PE or VC fund, e.g. sale of a listed investment, or sale of quoted shares after a lock-up period.

Sale to another PE firm The sale of company shares to another PE firm.

Sale to management The sale of company shares to the management of the company.

Secondary funds or secondary purchase/replacement capital Secondary Funds are funds that focus on purchasing the portfolios of investee companies from an existing PE firm. A secondary purchase is typically a purchase of existing shares in a company from another private equity firm.

Secured debt Loans secured on the company assets.

Seed stage Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

Sovereign funds A state-owned investment fund.

Start-up Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their product commercially.

Trade sale The sale of company shares to an industry investor or a strategic buyer.

Unsecured debt Loans not secured on the company's assets.

Venture capital A venture capital firm refers to a firm that makes equity investments for the launch, early development, or expansion of a business, typically in an innovative/high-tech product or service. Venture Capital covers Seed, Early Stage, Later Stage VC and Balanced VC funds. It does not include buyout investing, mezzanine investing, fund-of-fund investing, secondaries, etc.

Vintage year The year of the first closing of the fund.

Write-off The write-down of a portfolio company's value to zero or a symbolic amount. The value of the investment is eliminated and the return to investors is zero or negative.

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