

How to maximise business value in a relatively short time

Successful private equity investments make spectacular returns in just a few years. Examples of such investments include Ekuiti Nasional Bhd's (Ekuinas) investment (and subsequent divestment) of Konsortium Logistik Bhd, which saw a multiple return of 1.5 times invested capital and increased its workforce by 21%, and Creador Sdn Bhd's investment in OldTown White Coffee, which generated a quick-fire two times money multiple and an internal rate of return of 101% after a year.

Here, the best private equity practitioners share what they think is needed for any company to grow quickly in a few years.

"If I had to highlight a few things, I would say place a strong focus on shareholder value and how to optimise it, aligning interests of all the relevant parties so that everyone is motivated to achieve the same goals, and ensure there are strong management teams. Of course, many companies know this already. I would just add that effective private equity firms are very disciplined about these factors," says Eugene Lai, managing director and co-managing partner of Southern Capital Group.

Howard Marks, chairman of Oaktree Capital Management, says, "it is the value of company ownership that drives public and private equity although this relationship may not be strong on a one-year basis."

Marks has a reputation of being a "legendary investor", much like Warren Buffett. And like Buffett, his letters to Oaktree's clients have a significant following among investors all over the world.

In his April memo, he wrote: "Unconventional behaviour is the only road to superior investment results, but it isn't for everyone. In addition to superior skill, successful investing requires the ability to look wrong for a while and survive some mistakes."

Oaktree is the largest distressed-debt investor in the world and its funds have reportedly made annual net gains of 19% for the last 22 years. The company currently oversees about US\$91 billion in assets and has, in the past, turned away prospective clients owing to its limits on fund size.

Its global clients are about 100 of the 300 largest global pension funds and 74 of the 100 largest US pension funds, as well as 300 endowments and foundations, 12 sovereign wealth funds and 38 of the 50 primary state retirement funds in the US.

Sigit Prasetya, managing partner at CVC Capital Partners, advises listed companies that want to build business value to look further than their quarterly financial reports. "Think and make decisions based on a longer term than each quarter. Being a listed company tends to require management to place emphasis on quarterly reports, but a private equity firm looks at the longer term. This is ironic given that private equity practitioners in developed countries are sometimes accused of implementing short-term profit-maximisation measures that impinge long-term growth," he says.