Asian private equity has found something good about the region's aging population

- Asian private equity players said they see family businesses as an opportunity
- As the first generation of business owners ages, a company may not have a second generation able or willing to take the reins

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Asian private equity players are pointing to one big deal opportunity ahead: People in Asia are getting older.

Kyle Shaw, managing director at ShawKwei & Partners, a private equity firm focused on medium-sized industrial and industrial-tied services in Asia, said Wednesday that demographics is a major and "unstoppable" trend for investments.

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Two men play Chinese chess in an elderly home in the Huang Pu district.

"In the 1980s through 2010, we in private equity would invest with men and women in their 30s and 40s, they were aggressive, they were ambitious, they wanted to make their mark on the world and they worked hard," Shaw said at the Asian Venture Capital Journal conference in Singapore. "Today, those people are in their 60s and they're thinking they have a different objective in their life. They're thinking: What's the succession planning."

But, Shaw noted, the option to pass the reins to another family may not exist.

"Because of the shrinkage in family size — the one-child policy in China, maybe two children in most of the other places in Asia — you have less human resources in the child pool to take over the business," Shaw said.

The potential for deals could be large: In May, UBS said in a report that about a third of Asia's wealth could change hands over the next five years as the region's ultra-high net worth families face a wave of succession.

Other private equity players also pointed to aging business owners as a deal source.

Timothy Zee, managing director at PAG Asia Capital, which says it has around $18 billion under management, said that demographic trend drove one of his firm's recent deals in Australia.

"There were two brothers who founded the business. The two brothers did not have successors who were interested in the business and we came in and were able to negotiate a deal," he said at the conference, noting that finding opportunities in Australia "quietly" like that tends to be difficult.

Others cited the need for succession-oriented deal making.

"I'm of that generation where a lot of my counterparties, my friends, who are the second generation of businesses, they don't want to take over their father's business. It's a very common theme in Singapore and it's very similar to the rest of the world," said Singapore-based Lenny Lim, an investment director at Navis Capital Partners, which is said to have around $5 billion under management.

"Some of these businesses are tough. [The food and beverage industry] is tough, construction is tough," he said, noting that someone in their 30s or 40s may have made the decision to not go into a parent's business more than a decade earlier.

At other times, Lim noted, there is a second generation available to take over the business, but the firm would face limitations in moving beyond its home market.

"We do see that as the real alpha," Lim said, adding that "the real returns" would be found not just in helping a company expand in its home market, but also in helping it extend its reach to places such as China and Europe.

"Many of our family businesses, the family continues to be a significant shareholder going forward because they have all the domain knowledge," Lim said, adding that his funds usually step in with efforts to professionalize other parts of the business and sometimes prepare it for an initial public offering.

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