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INVESTMENT OPPORTUNITIES

China's succession challenge

Private equity has a key role to play in helping family-owned businesses find new owners, says Kyle Shaw, the founder of mid-market specialist ShawKwei & Partners

Demographic and industrial transformation offers significant opportunities for firms looking to establish a foothold in China, according to Kyle Shaw, founder and managing director of ShawKwei & Partners, a mid-market manager with offices in Hong Kong and Singapore.

Q What role does China play in your portfolio companies?

We look at China as an integral part of the larger Asia investment map. Our strategy is to look for opportunities where a business can operate across multiple countries. For Asian companies that means developing a specific China strategy. Likewise, if you are investing in a Chinese company, you'll need a broader Asian strategy.

For example, we've helped AMOS, a Singapore-based shipping services supplier, expand into Hong Kong and Shanghai. Another of our portfolio companies, Beyonics, a precision-parts manufacturer, has its headquarters and main production facility in Singapore, but also has factories in Changshu, Wuxi and Dongguan to supply the leading Chinese auto-parts makers.

Shaw: younger generation want high-tech jobs

When we look at an investment theme, we consider how we can roll it out in more than one country. China has an abundant labour pool with well-trained people, a big domestic market and a fast growing economy. There is an opportunity to leverage those characteristics with China's neighbours to create synergies and serve customers better.

Q How does the country's demographic offer up opportunities for private equity?

The Chinese were poor until the 1970-80s and those who came out of that experience in the 1990s were hungry and hardworking. As children they had nothing, but now many are well off with successful businesses and are eager consumers. The one child policy, however, has resulted in fewer young people and there is a massive generational chasm between today's 50- or 60-year olds and today's young adults.

The one child policy has also created management succession issues because the younger generation does not necessarily want to run the family business. This is creating challenges in succession planning and opportunities for private equity firms like us to step in and buy good businesses: China alone has 16 million companies, of which 86 percent are either individually or family-owned.

And the younger generation don't want to do the type of menial jobs their parents did. They are looking for more interesting high-tech jobs. That means the older manufacturing companies need to invest in technology.

Q Are Chinese companies ready for Industry 4.0, and the kind of digital transformation required?

No. Many aren't. Industry 4.0 needs significant investment, and there's a reluctance of older owners to invest substantial amounts for unknown future benefits – especially at a time in their lives when they are thinking about taking money out of the company, not putting it in. They are concerned about who will run the business in the future, how they can spend less time working and how to manage the wealth they currently have. They are not looking to sign up for a lot more work. The family is thinking: 'We should be diversifying our wealth and not doubling down with existing business.'

That's where private equity plays a significant role. We can take a good business, step in and take a five-year view on it, invest capital, drive change like technology improvements and enterprise resource planning and hire new people because we want to build a business that we can sell in five to six years. And if we want to do that successfully, the business needs to have a continuing outlook and footprint extending well beyond our exit time.

Q What value creation levers do you employ in your portfolio?

Private equity must drive change and operational improvements in portfolio companies to realise high returns. Since we invest mainly in manufacturing companies, part of

RIDING THE WAVE

Ship shape: *ShawKwei helped AMOS expand in China*

Q What was your approach with AMOS?

Singapore-based AMOS is typical of the way we can help successful Asian firms establish a foothold in China. AMOS provides supplies, services and solutions to major international shipping fleets and offshore oil and gas operators. We bought a 60 percent stake for $17 million in 2014, moving them to a new distribution centre in Singapore, almost five times the original 50,000 sq ft facility. A new enterprise resource planning system and increased automation helped boost productivity.

The acquisition of Hong Kong-based ship chandlery supplier World Hand Shipping in 2016 allowed AMOS to gain a foothold southern China. We also upgraded the procurement business in Shanghai to a fully licenced ship supply company after obtaining more than a dozen licences.

That was followed in March 2018 by the launch of our own in-house-brand called Alcona, with products ranging from cleaning agents to protective clothing. Alcona unifies 15 of AMOS's different brands under one name. Marketing a branded product is an unusual step for an industrial company, but we are confident the product portfolio will grow and help expand the AMOS brand regionally. We also have an e-commerce platform at alconasupply.com where companies with workers not only in shipping but also offshore oil & gas, construction and mining can buy protective clothing gear and supplies.

The top-line has risen by more than 25 percent in each of the last three years, following these improvements, and we want to continue scaling up operations in Hong Kong, Shanghai and Singapore.

the operational improvement is providing factory and logistic facilities that are more productive. It's not just about having a new facility but having one that is more efficient.

Another area is technology, making sure we are using accounting enterprise resource planning, inventory, tracking receivables and working our cashflow better. Another thing is beefing up management and ensuring we hire more people. We don't just want to rely on a few great leaders, we want our companies to have a deeper bench where you have a head of procurement, head of marketing, head of operations, and so on.

And the final lever is a brand strategy. For our companies, we consider strategic branding as an opportunity to create value. Branding for us is about creating shareholder value. Branding makes sure our staff know the company's market position and value proposition to customers. When we sell the business, the last thing we want is for the company to be a well-kept secret.

Q What's next for your current portfolio?

With AMOS, we have a relatively young management team and expect to grow our capabilities as the businesses grow. The last few years have been challenging for shipping, offshore and gas industries, but these are cycles. I want us to be profitable in the current cycle and if things pick up, then we will benefit from that.

> ***"China alone has 16 million companies, of which 86 percent are either individually or family-owned"***

One recent investment is Gaylin, a rigging and lifting gear manufacturer, which needs a rebrand after growing in the last five years through the acquisition of four companies. These have yet to be integrated, so we plan a transformation into a one-company identity and focus. We will look to reduce surplus inventory as we move to a solutions-oriented business model.■