

# smartinvestor

OCTOBER 2017 | ISSUE 330

Is **Fintech**  
Rendering the  
Human Touch  
Obsolete?

**A NEW  
DEMENTIA  
CASE EVERY  
3 SECONDS**  
How to Face it?

**FINANCIAL  
CRISES &  
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Should We  
Worry?

**SPECIAL FOCUS**  
The Era of  
**TECHNO-MANIA!**



# PE GROUP Going Public On Private Equity

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# PRIVATE EQUITY UNDERSTANDING AN ELUSIVE INDUSTRY

Private equity firm is on a mission to change the way Malaysian SMEs and start-ups do business, and propel them into international markets.

Legendary businessman and entrepreneur Henry Ford's quote, "If everyone is moving forward together, then success takes care of itself" comes to mind when explaining how private equity (PE) firms operate.

Initially thought of as mere financial engineering, today, many have realised the value that PE firms create worldwide, especially in SMEs and start-ups, by steering these businesses and operations into multi-million-dollar companies from the background.

In Malaysia, the PE scene is still very much in an infant stage, with a handful of players soldiering on. The Potential Excelerate Group Ltd, or popularly known as PE Group, is one such company that is making waves in the local PE scene.

*Smart Investor* recently met with PE Group and Actcelerate Asset Management's (AAM) Managing Director Dato' Sri Dr. Sherwin Chew and Chief Executive Officer from AAM, Dato' CK Cheong to get the view from the inside.

## THE BEGINNING

Traditionally, PE professionals came from investment banking or financial roles. Chew and Cheong, however, come from families who are still involved in the manufacturing business.

"My entrepreneur journey started in my teens," said Chew, "perhaps because of my family background; which was why I've always had the drive to succeed on my own."

WE SAW HOW COMPANIES  
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THE MODEL BACK HOME.



*Dato' Sri Dr. Sherwin Chew (right)  
and Dato' CK Cheong*



DATO' SRI DR. SHERWIN  
CHEW CHEN YEE  
POTENTIAL EXCELLENCE GROUP LTD (PE GROUP)



*Dato' Sherwin (centre) receiving the Distinguished Winner in Financial Services Industry award at the Asia Pacific Entrepreneurship Award 2017.*

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Cheong added, "Interning with the family business taught me a lot about management skills and leadership; I must admit that was my foundation."

But neither of them was interested to pursue what their fathers did. "We tried dabbling in a few businesses;

we succeeded and failed at the same time. We tried many new ideas as we weren't satisfied with the conventional business model," explained Chew.

It was about the same time that the Alibaba revolution exploded in China. "We were so intrigued by the meteoric rise of Alibaba and Jack Ma that we decided to fly to Beijing and witness the magic ourselves," he added.

What they witnessed changed their lives forever. "Alibaba was taking over the world. From a mere start-up, it was going for IPO (Initial Public Offering) in such a short span of time, and at the same time, encouraging other companies to build their nest for IPO," said Chew.

This was to be their a-ha moment! "We saw how companies went from zero to multi-billion in 3-5 years, and we felt that we could emulate the model back home," said Cheong.

Furthermore, they also saw how companies were so dependent on banks for finance, which are not flexible and easy to get. "But what most of us don't realise is that the funds belong to the public, which are then loaned to the companies.

"PE companies like us get people to invest directly into businesses, thus cutting off the middle party. This way, the cost of doing business for SMEs is lowered. This was the first thought why we ventured into a PE business," said Chew.



## THE PE GROUP

As an investment company, PE Group mainly puts money into companies involved in ICT, creativity and art, and property development sectors, just to name a few.

"We are like a soft bank actually. Soft banks may invest in 1,000 companies, and probably only 10% will succeed. But that 10% may make the investor billions," said Chew.

"Similarly, we bank on company evaluations and return-on-equity (ROE), not return-on-investment (ROI). If I invested RM1 in a company, and it becomes RM15 in 3 years, I have made 15 times my investment. This is how PE works.

"Therefore, I'd like to believe that we are doing better what the banks think they are doing right!" said Chew.

"Our clients are usually institutional investors, who directly invest in projects and companies that we recommend. Globally, PE investors invest at least US\$5-10 million, but in Malaysia, the minimum amount is RM250,000 or US\$100,000," explained Chew.

Both gentlemen lamented on the fact the PE is still a relatively new term among Malaysian investors.

**SME OWNERS HAVE A TOUGH TIME LETTING GO OF THEIR BUSINESS TO PE INVESTORS. THEY ARE OFTEN AFRAID THAT WE'LL 'EAT' THEM! WITH THIS MINDSET, GROWING BIGGER OR GOING INTERNATIONAL IS ALMOST IMPOSSIBLE.**

"Many investors think that PE investing is exclusive only to GLCs and PLCs, but that is not the case. Investing in PE takes a lot of patience because returns can only be seen after 5-8 years," pointed out Chew.

Cheong added, "Most investors are more focussed on the surface, want faster returns, but PE is more about the ROE, not the ROI, as I mentioned before."

## SELECTING BUSINESSES FOR INVESTMENT

What is key for PE Group when selecting businesses to invest in is its people.

"We are more concerned about the founder and his team because I believe that behind every successful company is its people. Based on the team, we can judge if the company can go far or not," said Chew.

Cheong added, "Most companies start off with a draft idea and from there they build and troubleshoot. But who does this? The executors, who are the founders, and their team.

"They are the key to the business because I have personally seen sales coming in during bad times, or a company surviving through an economic storm due to its staff. People are the asset!"



**WE BANK ON COMPANY EVALUATIONS AND RETURN-ON-EQUITY (ROE), NOT RETURN-ON-INVESTMENT (ROI). IF I INVESTED RM1 IN A COMPANY, AND IT BECOMES RM15 IN 3 YEARS, I HAVE MADE 15 TIMES MY INVESTMENT. THIS IS HOW PE WORKS.**

The other issue with SMEs in Malaysia is that they don't think big. "SMEs' knowledge of capital markets is almost zilch. They have no idea on how PE firms can help them enhance their business and go international. To be frank, they don't even have an intention to go global, they just want to make a quick buck at home," Chew said.

"For instance, if they start a supermarket business with their own savings, they can just focus on one outlet around their neighbourhood. With the help of capital market players, they can probably open 10 outlets at one go.

"But the problem is SME owners have a tough time letting go of their

business to PE investors. They are often afraid that we'll 'eat' them! With this mindset, growing bigger or going international is almost impossible.

"With the stagnant Malaysian market, how would they even grow their business. The only way is to diversify overseas or at least South-east Asia," he opined.

Cheong encouraged SMEs to talk to PE Group if they are caught in this situation. "Let us help you with business restructuring so that you are in a better position to go international. We are willing to advise but SME owners need to cooperate as well."

What's comforting about PE

Group is that despite investing money into a business, they remain the minority shareholder.

"We have the rights but we don't intend to control. Globally, investors usually hold at least 70% of the business they invest into, but we don't believe in this because if this happens, how do you expect the owner to be motivated to perform?" questioned Chew.

"To us, money is the smallest fraction in the business pie; what's more important is the real asset which is the people! Simply for this reason, we usually only hold a maximum of 40%; thus, companies need not worry as they are still the majority shareholders," revealed Chew.

What if the majority shareholder overrules your decisions, we asked. "When we invest in a company, we ensure that the owner has the same values as us, and his business is aligned with our values and what we believe in," said Cheong.

"This is performed during due diligence, where we will do a background check on the entrepreneur's integrity and execution plan. We expect him to think big and go global through business expansion; otherwise we won't invest because it won't do us any good in the long run," he explained.

Cheong also strongly encouraged SMEs to go for IPO. "If SMEs want to be a multi-million-dollar company, they must go for IPO; otherwise, you'll never know how high you can fly."

### **ORGANISATIONAL ROLES**

While in the initial stages, there were just Chew and Cheong running the show, in recent years, they have set up in-house teams of operational specialists.

The duo, in their early 30s, were schoolmates turned business partners. "Cheong is the CEO, while I handle investors relations," said Chew, adding,

“we both make investment decisions akin to investment managers and sit on the board.”

When asked what is it like being a CEO at a very young age, Cheong said, “Since I was already into the family business as young as 16, we have learned the fundamentals and skills that we need to run a company.

“However, since the methods are traditional, over the years, we merely needed to fine-tune and apply them to this era. Our staff are mostly millennials with a fine mix of experienced senior people who are there to lead. With this mix onboard, we expect to speed up the growth process,” he highlighted.

Chew also lamented the unwillingness of the current generation to take risks. “What they want upon graduation is a fixed income and a well settled life. But isn’t life more than that? We need to have passion to constantly learn new things and think of new ideas, which is precisely what we did.”

Cheong added, “Though we came from well-to-do families, we didn’t settle in our family business. We could have just continued with our family business; why even bother going to China. But we did. We went there alone, we had the courage to do so. And today, with the Malaysian economy being stagnant, we bear the fruits by going global.

“Along the way, we had the opportunity to mingle with some of the best minds in China, and sharpen our personality. Today, equipped with all the information, ideas and skills, we know exactly how to deal with international projects and people. This is what youngsters should yearn for,” he elaborated.

When questioned about the pressures of handling people’s money at a very young age, Chew said, “Without pressure, there is no pleasure

(laughs). Jokes aside, we believe in being hands on in every aspect of the business we invest in. That’s why we call PE Group a hybrid PE company.

“We are not investors who merely invest, let go and expect the company to do their KPI for us. As a hybrid, we put our team of professionals and resources to help businesses succeed. This is how we perform and assure our investors to invest and earn money with us,” he highlighted.

### CHINA VERSUS MALAYSIA MARKET

Chew claimed that in China, the desire to be successful is stronger. “Their investment behaviour is unique. They would grab every single opportunity that comes their way, even it means losing money.

“In fact, while we view PE as a game or scam, China views it as a new chemistry in finance, which is why we are so much slower than them.

“Money is never an issue for them, which is great because a country’s finance and economy can only grow if investors are ready to take that sort of risk. In Malaysia, we are much more conservative because we are too comfortable here,” he justified.

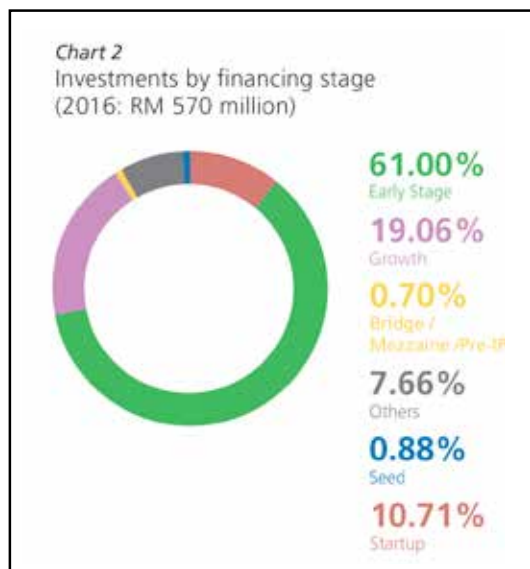
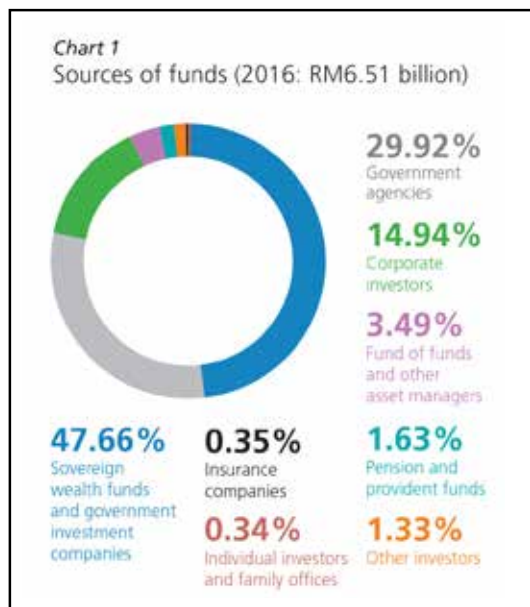
“In China, they welcome the younger generation’s ideas. If you have a good idea and execution plan, funds will pour, but in Malaysia, it’s more about who you are, your track record and portfolio, and if you can

really deliver what you promise.

“China is more focussed on whether it’s a new idea in the market, while Malaysia is more on improving an existing model. We just don’t embrace new possibilities, which is sad given the tremendous capabilities Malaysians possess,” lamented Chew.

### BUSINESS RISKS

While every business has risks, Chew admitted that diversifying is the best way to manage risk in a PE business.



Source: SC Annual Report 2016



"In PE Group, the fact that we invest in 10 companies with different business model shows that we are diversifying. We are not throwing our money in just one basket. So out of 10, two becoming superstar is enough to recoup losses, if any, in the other eight.

"In PE, investors understand that making and losing money is part of the game. Even if their money is burned, it's for something meaningful. They can accept that. But what they can't is getting cheated, which is why we are always hands-on," said Chew.

### ASSESSMENT CRITERIA

PE Group employs a 4-step evaluation method to help us identify which funding category SMEs or start-ups that come to us will fall under. These are:

#### 1st step: Pre-Seed Funding

This is the initial capital a company brings in which comes from friends, family members, credit cards and other available sources and means. The amount ranges from US\$5,000 to US\$100,000. This capital is used to kick-start the business with the essentials needed to make the first sales. The company usually perfects its business plan and starts building its management team to position itself for the next round of funding.

#### 2nd Step: Seed Funding

Also known as seed capital, the amount of funding ranges from US\$100,000 to

US\$500,000 and is often provided by angel investors. The capital is usually structured as convertible notes or common stock. Seed capital is often used to prove market acceptance of the products or services.

#### 3rd Step: Early Stage Investment (Series A & B)

Series A & B refers to the first and second round of institutional funding for a venture. The average amount of Series A fund ranges between US\$2 million and US\$5 million, with the expressed goals of funding early stage business operations. This will provide enough capital for 1 to 2 years of operation that includes needs - from development and marketing to employee salaries. Series B is the following round that generally raises US\$5 million to US\$10 million, or sometimes up to \$20 million in capital or more.

#### Later Stage Investment (Series C & D)

Each round of Series C & D funding raises US\$50 million and above. These rounds of fund are also usually obtained from venture capital firms, strategic or corporate investors.

#### 4th Step: Mezzanine Financing

Mezzanine capital is often provided by private equity firms. The capital provided is either equity, debt or a convertible note to a company

just prior to its Initial Public Offering (IPO). Mezzanine investors generally take less risk, since the company is generally sold and poised to "cash out" relatively quickly.

### PE MEANS BUSINESS

As far as money is concerned, it always pays to be extra careful, and therefore investors cannot be blamed for being sceptical about the PE business.

Answering this, Chew said, "Of course, we don't deny that people may view PE in a negative light but as an investor, you must also do your own due diligence before investing in any company.

"As for PE Group, we are not a new company. We have been in the business for 5 years with a solid track record and proper documentation. Some of our clients have been with us from day one till now. And we have a good reputation in the Chinese-speaking market.

"So, new investors need not worry too much, and if they're still apprehensive, they can always speak to us, and when they do, they'll know we mean business," he assured.

### FUTURE

The brains behind PE Group wants to be an internationally recognised company in the years to come.

"We are looking at investing in 30-50 companies, both locally and worldwide. For this, we welcome any companies or investors with open arms. We are looking at having a physical presence in Shanghai, Singapore and Indonesia as well," explained Chew.

"In essence, we want to build an ecosystem that believes in people, invests in people and help them achieve what they are destined to be – at the top of their game!" ended Chew. 