

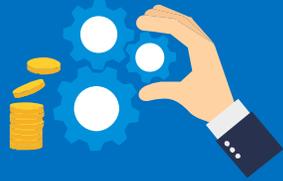


# COVID-19 Impact: Private Equity and Credit Solutions - Alternate Financing Options for Businesses

July 2020



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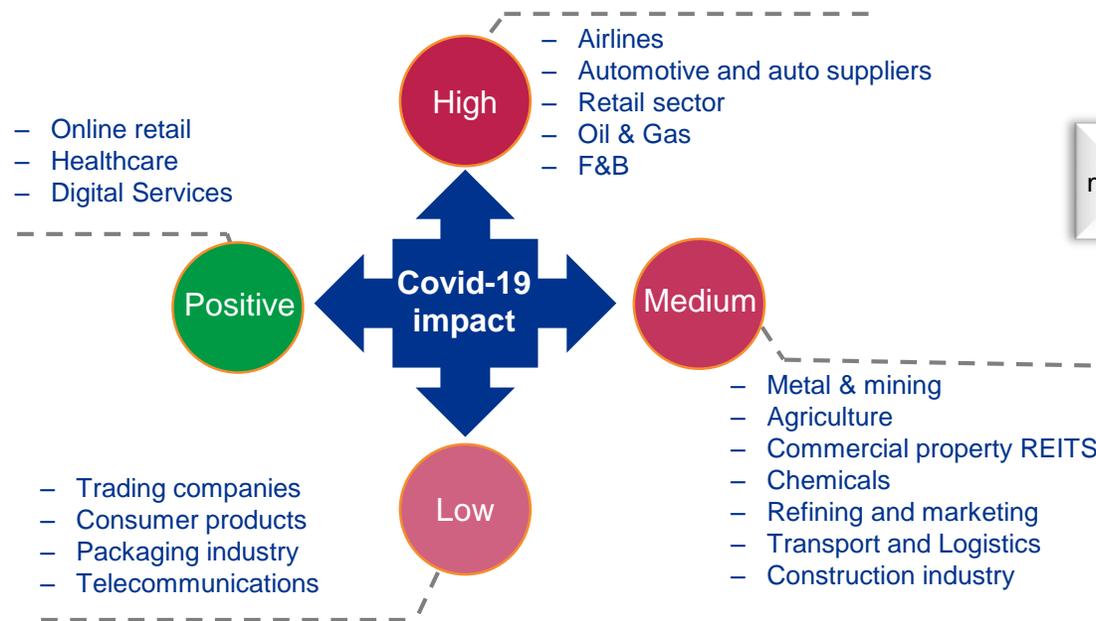
Other sources of  
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# Recap: Covid-19 business impact

## Impact across sectors in APAC

The coronavirus pandemic is causing a global health emergency and an economic slowdown impacting most industries...



## Implications for businesses

...This has resulted in magnified focus on critical business issues:



### Key relief measures in Singapore

- **Stabilization and support package** worth S\$4 billion; **Resilience Budget** worth S\$48.4 billion; **Solidarity budget** worth S\$5.1 billion; **Fortitude budget** worth S\$33 billion
- Employment-related measures (e.g. Jobs support scheme, enhancement of wage credit scheme etc)
- Economic stimulus measures (e.g. enhance SME working capital loan, one-year temporary bridging loan program for enterprises etc)
- Sector specific measures (e.g. rental relief in public properties etc)



*Relief measures may assist with short term liquidity constraints, however these may be inadequate for long term sustainability of businesses, especially for SMEs, given significant erosion in top-line – the capital structure challenge will increase when support is removed*

# Private equity and debt (“PE”) overview

Private Equity or debt may be an option if traditional Equity or Debt (banks) finance markets are harder to access given uncertainty

## Overview



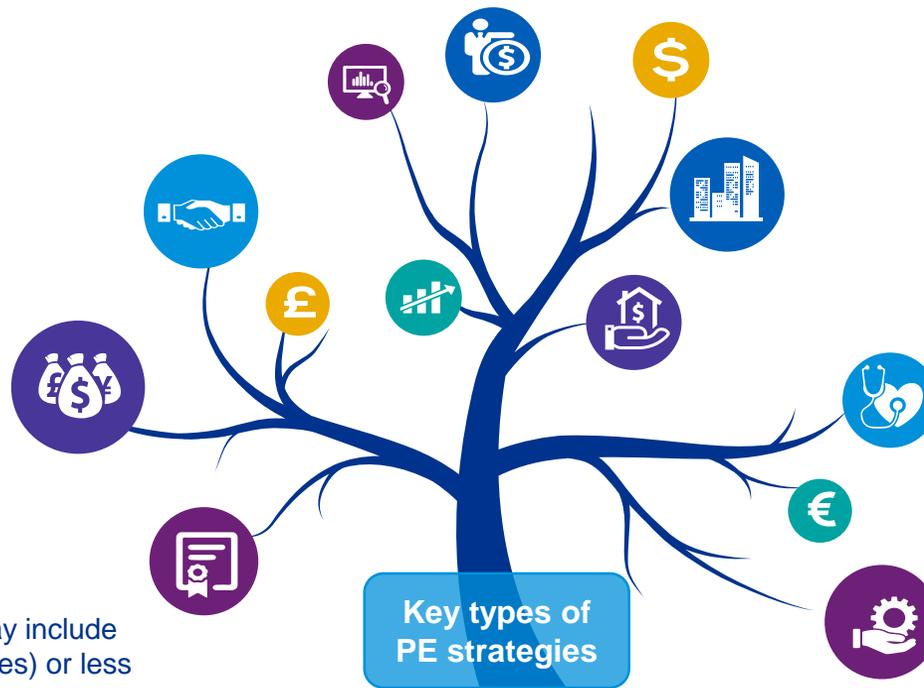
- Private equity involves **pooling of money from investors (“LPs”)** and directly investing in companies under different strategies
- Capital infused is often **routed to value accretive opportunities** such as new technology, acquisitions, and working capital
- Private equity is **an alternate investment class** — unlike conventional investments such as equities and bonds

➤ **Venture Capital Funds**  
Invest in small, early stage, emerging businesses with high growth prospects

➤ **Growth Capital**  
Targets established companies who need capital to expand

➤ **Buyout Funds**  
Combines investor funds often with borrowed money to acquire companies and improve profitability

➤ **Credit Funds**  
Focus on credit investments; These may include risky loans (debt of distressed companies) or less risky loans (secured senior loan)



➤ **Infrastructure Funds**  
Invest in infrastructure sectors such as energy and transport eg toll roads, airports or electricity

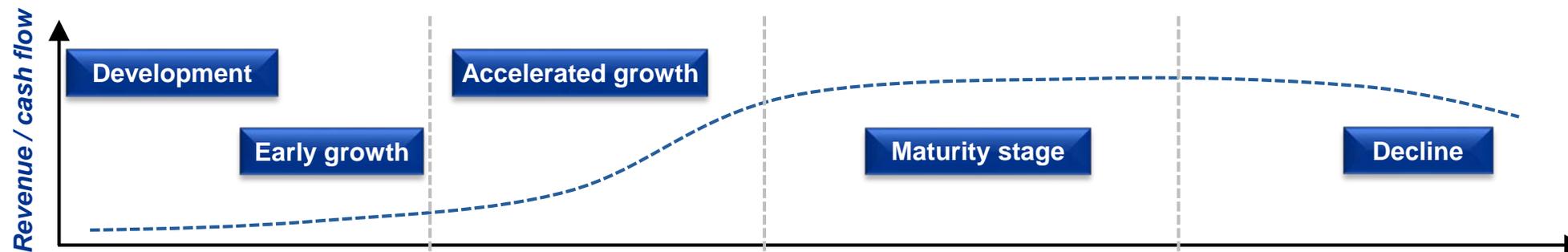
➤ **Real Estate Funds**  
Invest in property including industrial and commercial properties

➤ **Healthcare Funds**  
Specialised funding for healthcare businesses

➤ **Distress or Turnaround Funds**  
Lending to or investing in companies in financial difficulty or needing turnaround

# PE investment preference

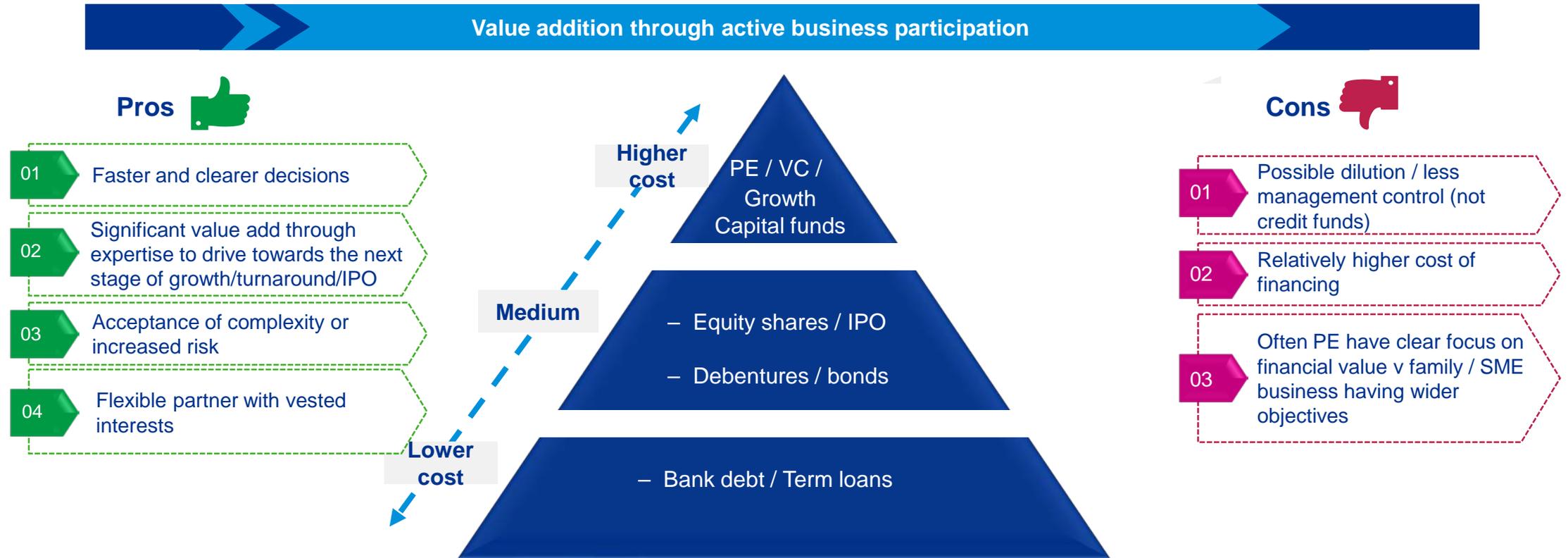
## Key Investment criteria of major PE funds across business cycle



Type of funds	Venture capital	Growth capital	Buyout capital	Distressed PE and Turnarounds
Cash flow stability	Nil, early stage investment	High growth cash flow	Stable cash flows	Often negative cash flow
CAPEX / WC requirements	High	High	Medium	Low, - reluctant to make significant investments
Opportunities	Establish a new idea	Expanding a high growth business	Gain from established cash inflow; Identify incremental value creation	Purchase at low valuation and gain from turning around business
Management input	Large say in governance	Strategic guidance and operational support	Often control or at a minimum significant influence	Control or significant influence
Example industry	Industry disruptors including technology such as Healthtech, Fintech etc.	Growth sectors	Large established sectors such as Manufacturing, Consumer products	Distressed capital structure or operations – special situations

PE funds invest across varied sectors and maturity stages depending on their investment strategy

# PE partnership value add and flexibility often outweigh higher financing cost



PE financing can be a relatively costlier means of financing, however, this is coupled with significant value add, flexibility, acceptance of complexity and risk. PE have a vested interest to to maximise business value through active participation in operations and governance.

# Other sources of financing



**Many traditional SMEs rely on family friends and internal / own savings as the primary source of financing. Other sources of financing include:**

## Working capital financing

- Trade credit loan
- Accounts receivable loan

## Factoring and invoice discounting

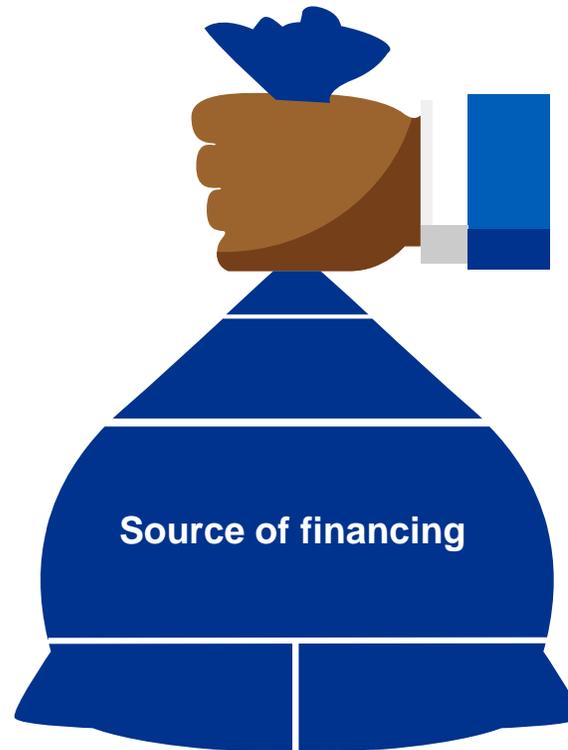
- Raise funds against unpaid invoices
- Business sells all or selected accounts receivable to a third party

## Capex financing specialists

- Lease agreements
- Hire purchase agreements

## Export finance specialist

- Import / export financing
- Letter of credit



## Fintech and crowd funding

- Challenges in accessing traditional funds by SMEs, provides opportunities for fintech companies
- Crowd funding witnessed significant growth, specifically P2P lending platform

## Micro financing

- Offering credit in the form of small working capital loans to small business

## E-commerce platforms

- E-Commerce Platforms offering SME loans to marketplace users / drivers etc

## Government funding schemes

- Government schemes such as Enterprise Financing Scheme, SME and Working Capital Loans
- Grants



**These types of financing generally focus on specific business needs.**

# Key takeaways



Fiscal measures/  
government  
measures taken may  
not solve longer term  
capital structure  
issues due to  
Covid-19



PE are “open for  
business” for longer  
term debt and equity  
financing



PE funds invest in  
various industries  
and across business  
cycles ranging from  
early stage startup,  
SMEs to very large  
companies



Though PE funding  
may be costly, PE  
firms have flexibility  
and can add  
significant value far  
beyond cost of  
finance





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