

China's Private-Equity Exits Stalled by IPO Freeze, Study Finds

By Cathy Chan - Jan 8, 2013 1:00 PM GMT+0800

Private-equity funds in China are still holding 82 percent of the companies they've invested in since 2007, as the frozen market for initial public offerings keeps them from exiting, a study showed.

Funds hold 6,584 companies after disposing of 1,445 and seeing 20 go bankrupt, according to a report from [China First Capital](#), a Shenzhen-based firm that advises on private equity and mergers. Investors still hold companies valued at \$94.3 billion, compared with a total of \$194.7 billion, according to public data compiled by the firm and its own research.

China's IPO market has been shuttered by regulatory delays, while concern that accounts have been misstated has closed off U.S. bourses to Chinese companies. Firms are under pressure to return money to investors as funds raised several years ago approach the end of their cycle, while the market for sales to industry investors or other funds remains underdeveloped.

"The larger issue has been one of reduced access to public markets for PE invested deals, rather than simply lower valuations," said the [China](#) First Capital report. Private equity in China is "over-allocated to IPO exit."

The backlog of IPOs pending approval in China grew to more than 800 in December as regulators stopped allowing new offerings on concern that they may weigh on the market. Companies raised \$14.6 billion through IPOs last year in mainland China, down 64 percent from 2011, data compiled by Bloomberg show.

Private equity firms in China have raised \$137.7 billion since 2007, including a record \$48.1 billion in 2011, according to the Asian Venture Capital Journal. Meanwhile, new investments fell 27 percent to \$21.9 billion last year, the biggest drop ever, according to AVCJ.

Of 7,500 unexited investments since 2001, at least 200 of them are “quality secondaries,” or companies that have grown 25 percent a year since the original investment and can be sold to another private-equity fund, China First Capital said.