

Finding Opportunities Where Few Dare To Invest



Douglas Clayton, CEO and managing director of Leopard Capital, at his office in Phnom Penh. (KT Photo: Jonathan Pannetier)

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In 2008, Leopard Capital launched Cambodia's first private equity fund. Now, as the eight-year fund approaches its expiry date, the frontier markets investment firm is looking for exit options. Douglas Clayton, CEO and managing director of Leopard Capital, spoke to Khmer Times about the risks and rewards of being a first-mover in a frontier market, and of the opportunities he sees in a country that is still off the radar of most institutional investors.

KT: You were a pioneer investment firm in Cambodia. What was the market like when you first arrived and what led you to open a private equity fund here?

Clayton: I first came to Cambodia in 1991 as a tourist and saw Angkor Wat, which was as the UN [peacekeeping mission] was coming in. Sixteen years later I ended up moving my family here and setting up a fund because I felt if a country could change that much in 16 years, what about the next 16? I felt it had already done the hardest thing, which is to take itself from a dusty, frontier town sort of place to a one where I could safely move my family and set up a business. So I'm a believer in the long term.

KT: How difficult was it to raise the funds back then, and have the results met your expectations?

Clayton: We launched Leopard Capital in early 2008 just as the world was starting to melt down with the global financial crisis. It was a very challenging time.

It took me a lot of effort, but I got 107 investors from around the world to write personal checks in most cases – anything from \$50,000 to \$10 million – and that gave us \$34 million in total, which became the Leopard Cambodia Fund. It was one of the only successful fund raises in all of Southeast Asia that year. And anything we did after that was not as hard.

Since then, the economy has done what I'd hoped. The risks that investors expected didn't materialize, but other risks that maybe we underestimated revealed themselves, which is primarily execution risks and the challenge of putting together effective management teams on a very low budget – and having them stick around. That's not really a Cambodia-specific challenge. If we'd taken the same budget to invest in the US we would also have had a tough time.

We did 13 investments: 10 are in Cambodia, one is in Laos and two are in Thailand. This included all types of investment, such as debt, equity, mezzanine financing, controlling positions and minority positions.

We're hopeful that the end result will be sufficiently positive to allow us to do a second fund. We're looking to go back to the investors and say: "Hey guys, you've seen what we can do and we want to try it again." And this time, we'll try to recalibrate a little bit to make sure we get more winners and less losers.

KT: What were the rewards of being a first-mover investing in Cambodia?

Clayton: Anyone looking for funding would eventually come pitch to us because there weren't many other options. So one of the advantages is that we got access to opportunities.

Of course, most of the opportunities were not suitable to us, but we had a chance to choose. It wasn't a competitive market like China where there are 500 private equity firms looking for some of the same deals. And to a large degree it's still like that today.

One thing that's unusual about this fund is that the key people behind it did not have any experience in Cambodia. They were not Cambodian nationals, did not speak the language, and when I first arrived I didn't know anyone here.

It was a real foreign investment in that sense. We were raising money, trusting that the local environment would be hospitable as the officials promised, which turned out to be true. We didn't have any disappointments related to the laws or regulations, it all went smoothly.

In some ways it was even easier then because there were so few other foreign investors that if you wanted to arrange a meeting with a minister, it was probably a lot easier to arrange than it is now.

We also had access to [local talent] in the sense that we were able to hire from Cambodians who had gone abroad on a scholarships, were top of their class, etc. They came and worked for us.

KT: What were the risks and challenges?

Clayton: When we started, there was no roadmap for Cambodia for institutional investors, so we were kind of creating our own map as we tried different strategies.

But overall, it went pretty smoothly. The main risk was that the time from start up to profitability is longer here for most companies than the investors expect. None of the big early-stage companies we invested in met their forecasts on schedule due to unanticipated challenges they encountered.

The hardest thing was educating the local business community about what private equity is – that we’re not a bank, and we don’t just make money cheaply. We had to explain the unique characteristics and expectations of private equity.

There were a lot of proposals, but mostly they were for startups by inexperienced people, which is a very risky way to invest. The investments we made that did the best were companies that were already solidly profitable when we invested and continued to be so. The ones that did the worst were the ones that never made any money and wanted our capital to get to the point where they could turn profit, but it turned out to be a longer journey than we expected.

Fortunately, quite a few of the investments were profitable.

KT: How important is local insight in securing successful investment in developing markets such as Cambodia?

Clayton: Anyone who doesn’t have a local presence will find it very challenging to make a profit on private equity because it requires a lot of close interaction. That leaves out most [of the big institutional investors] and leaves it to the small funds like Leopard to be the local players.

KT: Cambodia is increasingly on the radar for investors looking to position themselves in the Southeast Asian market. What possibilities do you see as an investor?

Clayton: In 30 years Cambodia could be a wealthy country. People tend to forget that when they look at the poverty. This country is on track to be a successful economy and it will someday be an advanced economy. Nothing is stopping Cambodia from continuing its above average growth. It will catch up and, like Singapore, may go further than people expect. At some point Cambodia will be relevant and could even be a model for other countries on how to escape poverty.

Most of the analysis of Cambodia focuses on its shortcomings, but the real untold story here is the unusual strengths that it has in terms of its postwar structure. It’s done certain things, like having a very open economy and [carrying out] democratic reform – the sort of things that haven’t fully paid off yet, but will eventually become decisive differences.

As a whole, global investors are still unfamiliar with private equity in frontier markets like Cambodia. Even though we’ve done it before, it’s a daunting task to try to raise another investment fund here.