

W Capital Markets launches private equity fund; targets \$20 mil by end 2023

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Wayne Lee, executive chairman and CEO of corporate finance firm, W Capital Markets, has launched a private equity fund, W Capital Private Equity, to complement its existing activities that range from advising M&A deals and IPOs to fundraising.

As a relatively new firm that is founded just over four years ago, W Capital Markets focuses on mid-cap companies within Asia Pacific that have enterprise values of \$50 million to \$1 billion each, and with plenty of growth potential.

To Lee, the launch of the fund last November comes at an ideal time, especially when there are a lot of private equity deals as well as good, quality companies — including small- and medium-sized enterprises (SMEs) in Singapore that require support.

“As a homegrown investment banker, I hope that I can do my part in helping these SMEs grow. That’s why I think it’s the right time for me to establish W Capital Private Equity,” says Lee in an interview with *The Edge Singapore*.

Lee calls 2023 a “great vintage year” to establish a new fund due to several factors including expectations of further market turbulence as a result of the rate hikes made by the US Federal Reserve (US Fed) in a bid to tame inflation. The global downturn in the technology sector and stock markets resulting in more reasonable valuations since the beginning of 2022 also contributed to his decision to establish a fund at this time.

Lee also sees both investment banking and private equity as highly complementary, where he can help match and bring together investors and companies from both sides.

Lee explains that W Capital Private Equity, which is wholly-owned by him, is structurally separate from W Capital Markets, although some of the investors in the fund are also shareholders of W Capital Markets. As such, both are considered separate entities but share a common major shareholder.

The fund currently has six investment committee members. Apart from Lee, they include Kamal Kanapathy, director at Cornerpiece Capital Partners; **Food Empire Holdings’** founder and executive chairman Tan Wang Cheow; and Tan Khee Giap, a professor with the Lee Kuan Yew School of Public Policy. The two remaining members are representatives from Mainboard-listed **Sin Heng Heavy Machinery** and a billionaire family office.

“Some of the LPs [limited partners who have invested in the fund] are the original shareholders from W Capital Markets. Therefore, it is a testament of their strong support that they have invested in my second business venture,” he adds.

It is due to this relationship that W Capital Private Equity enjoys a “key competitive advantage”, says Lee. That is, the fund will enjoy access to top-quality deals in terms of the origination of deal flows from the deals at W Capital Markets.

For the uninitiated, deal origination refers to the process of identifying and generating investment opportunities for a financial institution or an investor. This includes sourcing for potential investment targets which can be companies or assets that are being sold or are seeking funding.



Otsaw's founder Ting Ling Ming (left) with W Capital Markets and W Capital Private Equity's Wayne Lee

Starting small

For his maiden fund, Lee plans to start small with a target of \$20 million by the end of this year. Calling this a “good fund size” to begin with, Lee is well on his way to hitting this figure. Within almost a month of conducting fundraising, he and his team had already had their first close in January this year at an amount that he declines to reveal.

The fund’s ticket size per deal ranges from \$1 million to \$3 million. “Due to the nature of our small fund size, we will take a small stake; we will not take up more than 5% in any of our portfolio companies,” says Lee, who is targeting an internal rate of return (IRR) of 35% for the fund, so that he can build a credible track record and attract more investors and other potential LPs down the road.

While Lee calls his investment philosophy a simple one, he does have three key investment criteria before an investment is made.

First, he looks at the sectors that may do well. For now, these are the new economy sectors that include robotics, artificial intelligence (AI), deep tech, medical technology (medtech), e-commerce, renewable, energy and gaming. In traditional sectors, Lee prefers healthcare, education, consumer, fast-moving consumer goods (FMCG) and real estate.

Next, the investment value at the point of entry is important, says Lee. “We target a deep discount to the intrinsic value of the potential of portfolio companies.”

Finally, Lee says he needs to have a “high level of confidence” in the founder of the company as well as its key management team.

“The founder [of the company I’m looking to invest in] not only needs to be passionate about growing his business but also needs to display a high level of resourcefulness, focus and determination in the execu-

tion of his business strategies and plans to achieve scalability of his business globally,” he explains.

He adds that the fund seeks to invest in companies that are at Series B of funding to their pre-IPO stage.

“We will invest in companies with a very clear exit path where after the investment from our fund, there must be an exit strategy for the company to either go for an IPO or a trade sale within one to two years,” he says.

“Our fund life spans across five years with an additional two years. For the initial first three years of our fund life, we will seek to do active investments — deal origination and active investment, while we will try to seek an exit in the remaining two years. There’s also the option to extend for two more years [if there’s no exit in the initial time period].”

“If there is no IPO or trade sale at that time, we may just do a ‘secondary’, that is, we may sell to other private equity funds or other strategic players,” Lee continues.

Lee also notes that the fund can add value to these businesses with a two-pronged approach: first, by raising more funds for the company via his private equity business and second, by identifying quality M&A targets to accelerate the growth for these portfolio companies, he says.

Nasdaq-aspirant Otsaw

Shortly after the launch of the fund, Lee has already made his first investment in robotics company Otsaw. The Singapore-based firm aims to list on Nasdaq by end of the year. If so, it will be the first Southeast Asian robotics company to achieve this milestone.

“Otsaw is a global pioneer in advanced robotics technologies and next-generation AI in the healthcare, airport and security delivery to improve the safety of business processes and everyday lives,” says Lee.

“The global labour issues for low-end jobs aren’t going to improve anytime soon. Robots can be used to complement the work of such low-end jobs and I’m confident of the prospects of Otsaw’s business and scalability globally. It [operates] on a business-to-business (B2B) model [and] it uses robots as a service revenue model,” he adds.

Lee and Otsaw’s founder Ling Ting Ming first met four years ago when Lee visited Ling’s old headquarters to explore a potential fundraising. They reconnected recently, when Lee and Ling were both winners in their respective categories at the 2022 EYA Entrepreneur of the Year Award, jointly organised by the Association of Small & Medium Enterprises (ASME) and the Rotary Club of Singapore, and following that, firmed up the partnership with each other.

Bigger dreams

Looking ahead, Lee is aiming bigger, with hopes to raise a \$200 million fund in three to four years. “[The larger amount will come off] on the back of our track record of [the first] fund run,” he says.

“The focus of the second fund is to invest in both controlled or minority stakes in companies. That will give us a lot of options to invest in great companies with good cash flow. We can also provide further value add to the portfolio companies by having a professional team [comprising] full-time professionals at W Capital Private Equity to add value to the operating company level for the portfolio companies,” he adds.

For now, Lee’s fund is open to accredited investors with a minimum ticket size of \$500,000. “For investors or for LPs who invest our fund from February onwards, we take 2% in management fees and there’ll be a 20% carrying interest once we hit the hurdle rate of 8% IRR per annum,” he says. ■