

NORTHSTAR GROUP

Southeast Asian private equity with a targeted approach and strong connections

Preface

The purpose of this report is to give an overview of Northstar Group, a Southeast Asian PE firm, and explain why I believe it is a compelling opportunity. My analysis will be mostly qualitative due to my lack of access to data on alternative investments. This limitation also precludes me from discussing topics such as operational due diligence, fees, and detailed performance. Nevertheless, this report presents a solid overview of why I believe Northstar Group is a compelling opportunity based off publicly available information and my in-person meetings with its leadership.

Firm Overview

Northstar Group makes PE and VC deals exclusively in Southeast Asia with a particular expertise in the Indonesian market where it targets firms that will benefit from the country's strong economic growth outlook. Northstar was founded by Patrick Walujo and Glenn Sugita in 2003. Since then, the firm has raised five PE funds and one VC fund, with \$2.6 billion in total committed capital. It was the fourth largest ASEAN-based PE firm by fund size in 2019. Northstar's median deal size is \$50 million with valuations of around \$125 million.

Indonesian Economy Overview and Investment Case

Indonesia is home to 68 percent of Northstar's deals (see Appendix 1). As such, an overview of the country and its economy is fundamental for understanding Northstar's strategy.

From 1966 to 1998, the Indonesian economy was characterized by relatively low growth which was brought about by the rampant corruption and protectionism of the Soeharto dictatorship. Following the social unrest of the 1998 Asian financial crisis, the country transitioned to a stable multi-party democracy. Since then, the government has introduced reforms aimed at combating corruption and establishing strong governance frameworks. President Joko Widodo's current economic policy is focused on pursuing growth by adopting a Chinese model that relies heavily on investment. Pursuing this approach makes sense as Indonesia shares many of the attributes that spurred China's recent development, namely a pivot from protectionism to growth-oriented reforms, a large and young workforce, cheap labor, and high investment (see Appendix 2). Indonesia had the fifth highest growth rate among the world's 30 largest economies from 2014 to today and the IMF projects that it will rank second in the next five years.

Investment Philosophy

Northstar targets specific sectors, (primarily IT, B2C, Financial Services, and B2B) to leverage Indonesia's growth potential. During a company event that I attended in October 2022, the management team explained that these sectors were chosen as they are those that were most successful during China's economic boom. Essentially, Northstar has identified Indonesia's development as being similar to China's and is investing in the firms that are able to translate the business models that worked in China into the Indonesian market. High-tech is notably absent from Northstar's portfolio as the investment team believes that this segment is not sufficiently developed in Southeast Asia to be globally competitive. Furthermore, Northstar's funds have relatively low allocations to commodity producers. While these have historically made up the backbone of the Indonesian economy, they are ill suited to the firm's investment thesis. A more detailed breakdown of the firm's deals by industry and geography is available in Appendix 1.

Northstar's recent foray into VC is designed to synergize with its PE business which has historically had a growth tilt. Therefore, the management team views VC as an extension of its core strategy. In both cases, Northstar works with the leadership of their portfolio companies to help them grow their businesses by leveraging Northstar's extensive expertise and network.

Management

Patrick Walujo is the driving force behind Northstar. He is a prominent figure in Indonesian PE and VC, leveraging his relationships in business and government to access to some of the most competitive deals in the space. For example, Walujo was an early advisor to, and investor in, Gojek, Indonesia's most valuable tech company, thanks to his friendship with its founder. Walujo is also the son-in-law of Theodore Permandi Rachmat, one of Indonesia's wealthiest businessmen. It is very likely that this relationship is what led Rachmat to invite Walujo to acquire a \$250 million pre-IPO minority stake in his oil business, Triputra Agro Persada, alongside Singapore's GIC in 2012.

Performance

I have had difficulty accessing detailed performance data as Northstar does not disclose this information and I do not have access to the paid databases that report it. This being said, I was able to track down a March 2019 article from *Deal Street Asia* that included performance figures for some of Northstar's PE funds. According to filings viewed by the paper, the Northstar Equity Partners IV fund (2015 vintage) achieved an IRR of 14.9 percent as of November 2018, slightly below the equal-weighted pooled IRR of 15.10 percent for its category (see Appendix 3). Furthermore, an anonymous executive has claimed that the fund's IRR might have been as high as 30 percent when accounting for an exit that occurred after the filing date of the documents viewed by *Deal Street Asia*. While this would make the fund a top performer, it should be noted that this figure is highly speculative and could not be verified.

Risks

The three main risks associated with investing in Northstar's funds are (1) Indonesia being unsuccessful in achieving its development goals, (2) corruption, and (3) key-person risk. A 2021 study from the University of Indonesia's Institute of Economic and Social Research estimates that the current demographic boom will last until around 2040. The researchers found that the economy will need grow at a minimum of 6 percent per year during this period for Indonesia to escape the middle-income trap. The IMF forecasts future growth of around 5 percent. However, Indonesia was able to achieve 8 percent growth prior to the Asian financial crisis and is better positioned for growth today than it was then.

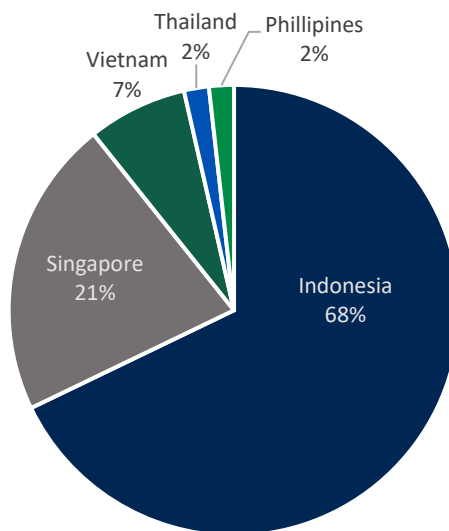
Despite politicians being unelectable without an anti-corruption agenda, there is still a close relationship between politics and business in Indonesia. Furthermore, the KPK – Indonesia's anti-corruption task force – has seen its power slowly reduced over the last decade. Indonesia's current level of corruption, as measured by Transparency International's Corruption Perception Index, is comparable to those of Serbia, Egypt, Mexico, and Brazil.

Apart from the risk of Patrick Walujo retiring from the firm, he also risks being distracted by other commitments. Most notably, Walujo became the CEO of GoTo (the post-merger entity of Gojek and Tokopedia) in June 2023. While Northstar made a partial exit from the GoTo in 2019, I have been unable to determine whether it has maintained the rest of its stake and thus whether Walujo's role as GoTo's CEO benefits Northstar.

APPENDICES

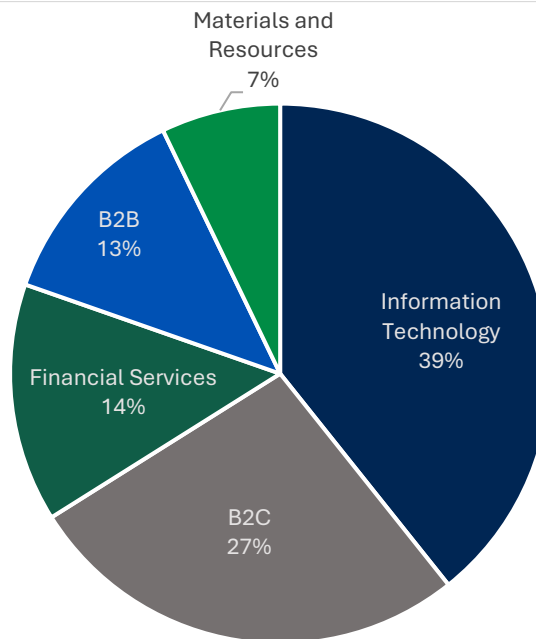
Appendix 1: Northstar's Deals by Geography and Industry

Northstar only does deals in Southeast Asia and is a leader in the Indonesian market

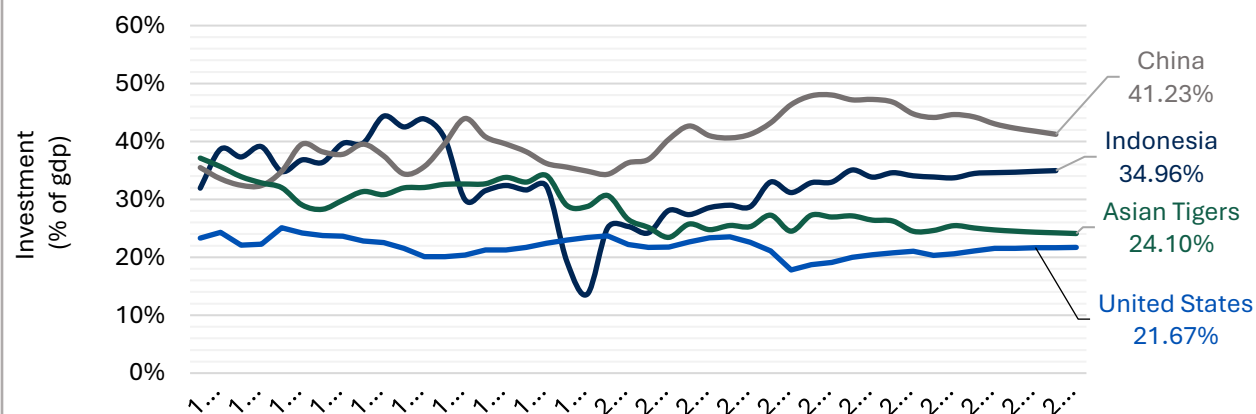


Source: PitchBook

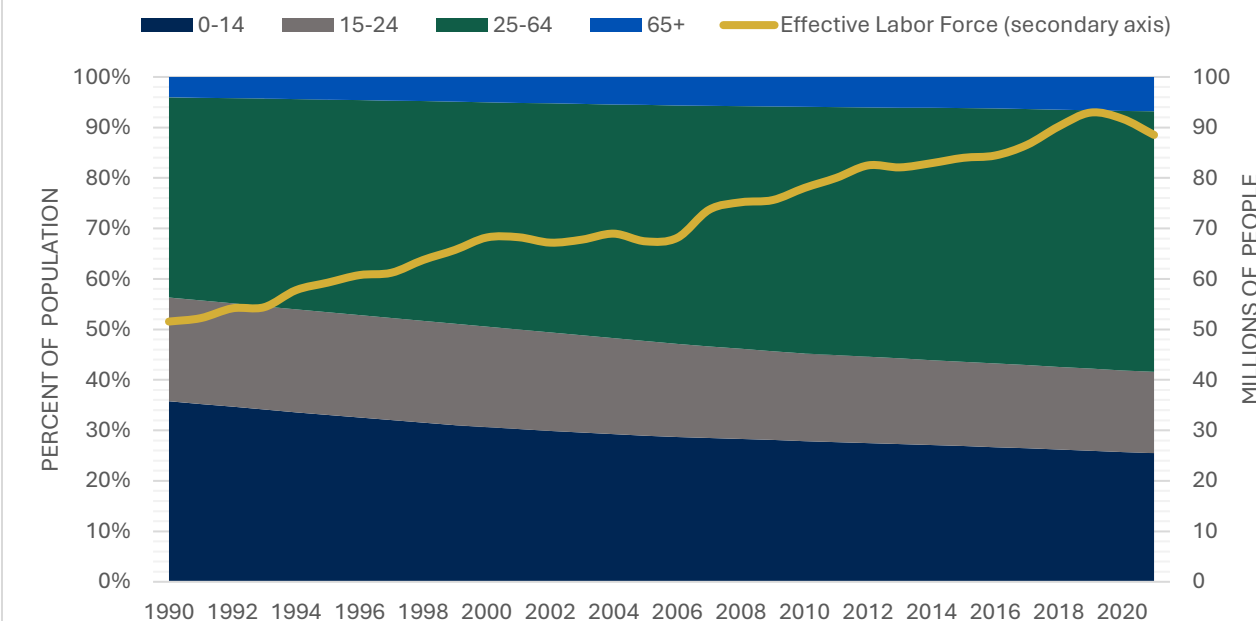
Northstar primarily does deals in the IT and B2C sectors



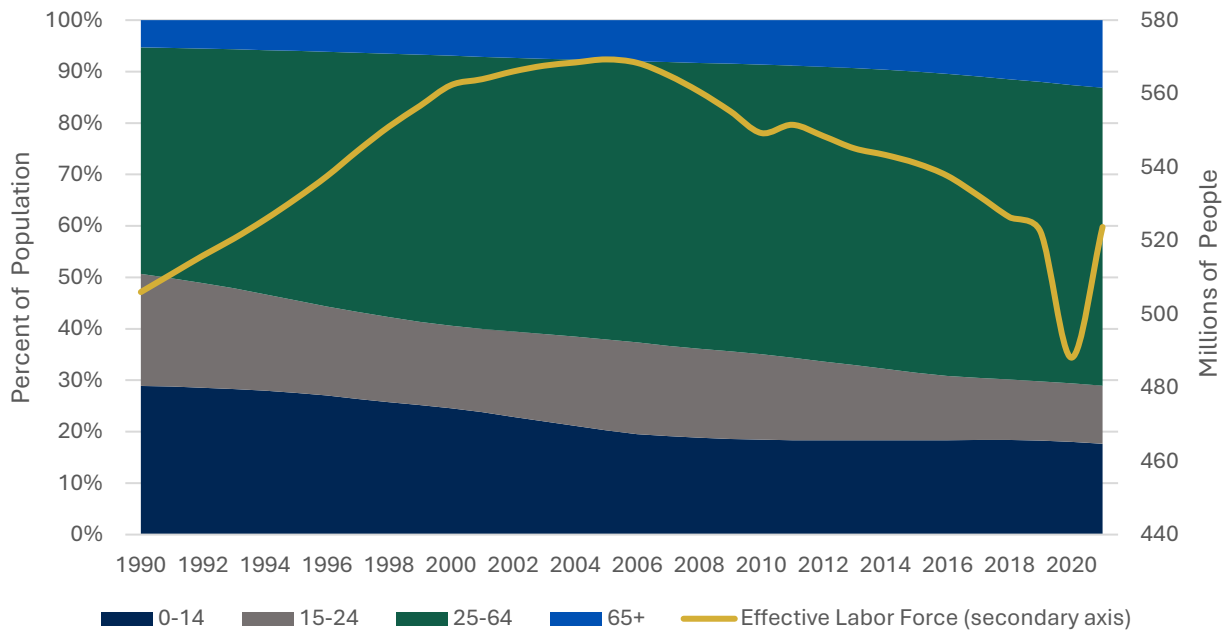
Source: PitchBook

Appendix 2: Economic and Demographic Data**Indonesia has similar investment levels as other high-growth economies**

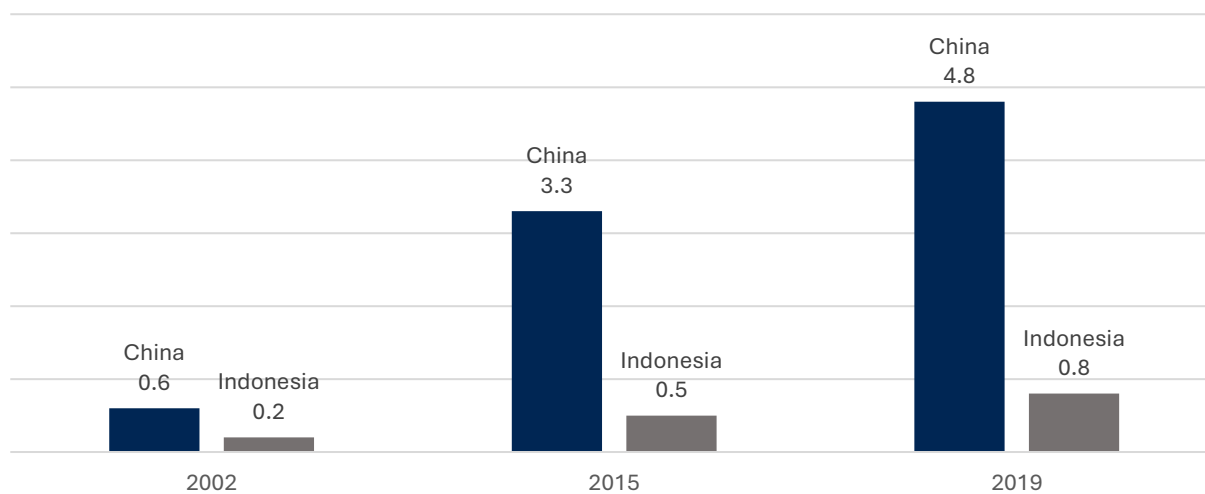
Source: IMF

Indonesia's labor force and demographics remain attractive

Sources: United Nations, World Bank

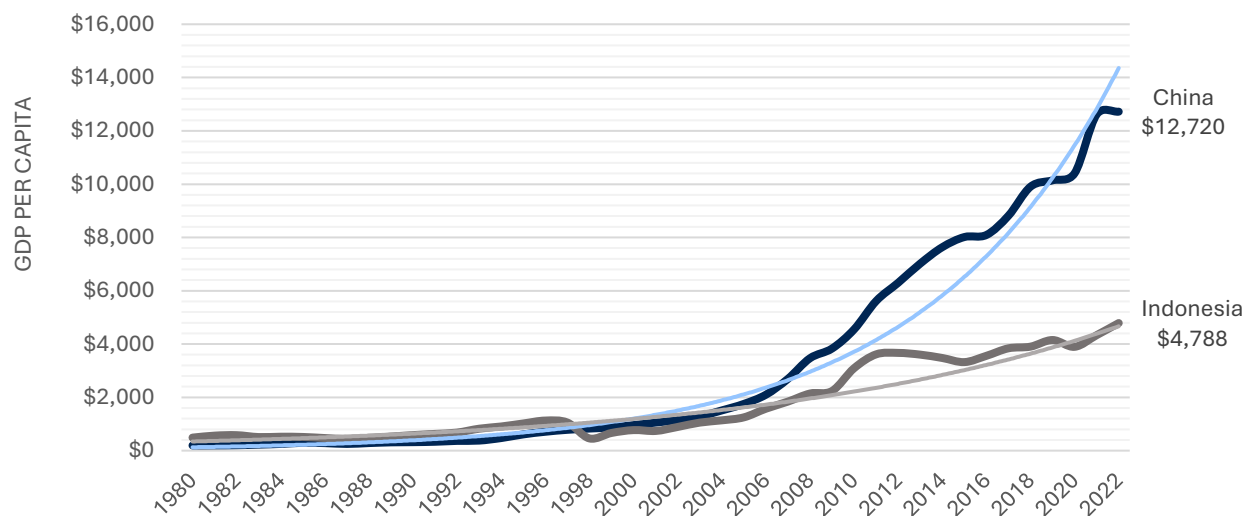
China's labor force and demographics are declining

Sources: United Nations, World Bank

Manufacturing labor cost per hour remains low in Indonesia

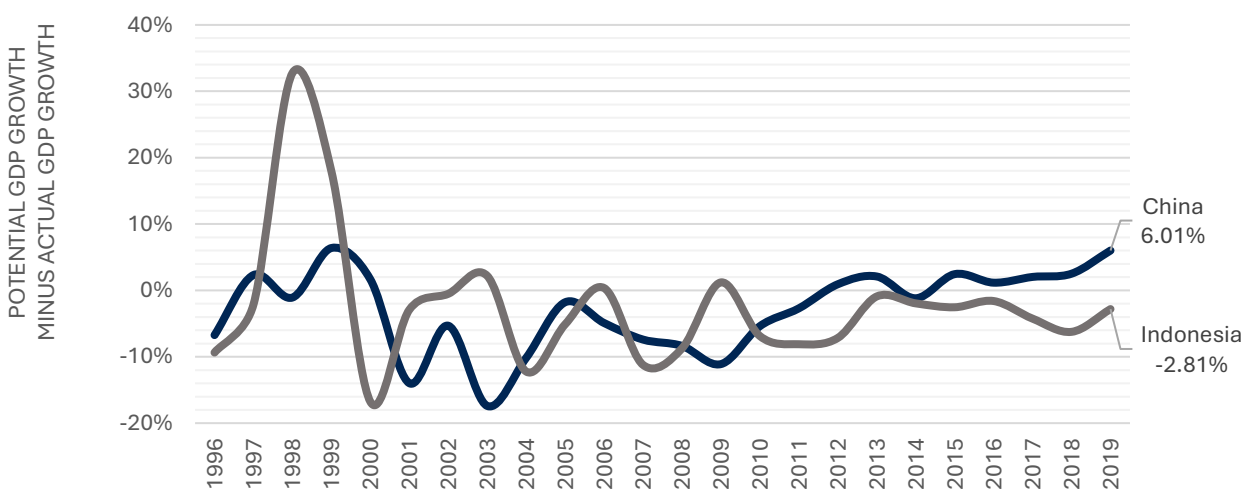
Source: Statista

Indonesia's GDP per capita is growing but remains below China's



Source: World Bank

Indonesia's nominal growth is 2.81% below potential



Sources: World Bank, FRED, Yannick Laurent Finance estimates

Appendix 3: Private Equity Fund Performance by Vintage Year (Q4 2018)

IRRs by vintage

Vintage year	POOLED IRRS			IRR HURDLE RATES						
	Pooled IRR	Equal-weighted pooled IRR	Number of funds	Top decile	Top quartile	Median IRR	Bottom quartile	Bottom decile	Standard deviation	Number of funds
Pre-2001	11.15%	9.28%	185	23.05%	15.56%	9.61%	2.53%	-5.99%	12.86%	183
2001	23.87%	19.57%	31	38.36%	26.88%	16.78%	11.06%	8.17%	19.37%	31
2002	18.73%	16.35%	35	34.48%	26.70%	16.88%	7.70%	2.97%	17.42%	35
2003	23.35%	16.39%	22	37.84%	24.90%	13.96%	8.76%	-2.21%	27.33%	22
2004	12.71%	11.20%	51	28.08%	16.66%	10.25%	4.12%	-6.95%	18.52%	50
2005	9.90%	10.00%	77	19.98%	13.07%	8.46%	3.77%	0.10%	10.37%	75
2006	7.65%	7.23%	108	14.85%	11.40%	8.00%	4.03%	-2.49%	9.62%	104
2007	9.76%	9.71%	110	19.55%	14.65%	9.80%	4.93%	-0.88%	9.62%	106
2008	12.52%	10.35%	112	22.51%	16.21%	11.39%	5.71%	-1.29%	10.26%	108
2009	14.02%	14.25%	49	26.26%	21.28%	11.83%	7.25%	1.34%	16.23%	47
2010	12.43%	11.50%	65	25.10%	14.72%	10.44%	6.16%	-0.19%	12.46%	56
2011	15.59%	14.15%	76	28.78%	19.65%	13.39%	9.93%	2.76%	20.00%	68
2012	16.80%	14.80%	110	27.33%	21.10%	14.76%	8.30%	1.84%	15.62%	103
2013	16.79%	14.83%	93	30.10%	19.99%	14.87%	8.75%	4.20%	11.30%	81
2014	17.60%	17.99%	94	35.40%	22.12%	14.45%	8.54%	-2.40%	16.40%	85
2015	19.99%	15.10%	130	30.08%	21.59%	12.57%	5.03%	-4.75%	17.59%	106
2016	17.87%	19.89%	102	29.00%	14.75%	7.98%	-1.96%	-13.66%	28.01%	81

Source: PitchBook. Data as of March 31, 2018.

Source: PitchBook Benchmarks, Q4 2018