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# Leadership in a Time of Crisis



Weijian Shan  
Chairman and CEO  
PAG  
*Hong Kong*

## **What is your focus as a CEO, as a leader, during this time of crisis?**

PAG is a private equity investment firm managing about \$35 billion in capital. We have three investment businesses, which are in real estate, absolute return, and buyouts. We have a tiny exposure to the public market as the vast majority of our business is investing in private companies. The wild gyrations in the public market in recent weeks affects us little. I am personally focused on the two dozen or so portfolio companies in our buyout business, in which we have invested about \$9 billion. As businesses have sharply slowed due to the lockdowns, we have made every effort to ensure that the portfolio companies have enough cash and liquidity to weather the storm.

## **How do you make your employees feel safe?**

We count about 120,000 employees in our portfolio companies, half of whom are in Asia, predominantly in China, and the other half in North America and Europe. We instructed all our employees to strictly follow the health guidelines and measures adopted by the countries or relevant authorities where they are. This pandemic is a public health issue which cannot be solved by private policies and the only way to mitigate it is if everyone strictly follows the rules. We have also donated masks

wherever needed. To date, of 40-50,000 employees in China, only one was tested positive for the virus in February, who subsequently fully recovered. We have 18 confirmed cases in North America and Europe and sadly two deaths in Europe. From what we can see, the pandemic is a lot worse in Europe and America than in China. And for China, the worst is over and people have gone back to work. Our kindergartens—which cater to tens of thousands of children in China, none of whom is sick to our knowledge—will re-open on April 13<sup>th</sup>. All our businesses resumed normality in China. In contrast, Europe is still very much in the middle of it. The US hasn't reached the apex as yet. Our worry and focus are on the U.S. and Europe.

**How have your portfolio companies fared and are you engaging differently with them compared to normal times?**

Our investment strategy has been conservative in the usage of leverage or debt. A number of our portfolio companies in China were severely impacted by the lockdown in the first quarter. But we see no risk to survival or of permanent damage. Different sectors are affected differently. We have a kindergarten business and a children's English tutoring business. Both were shut until this month. We expect them to fully recover in the next quarter or two. Most of our portfolio companies in China have not been affected. In the industrial gases business (making oxygen, nitrogen, argon, etc.), we are the largest in China with about 40% market share and almost \$1 billion in cash flow. The business was flat in Q1 and is expected to pick up from March. We own Tencent Music Entertainment, whose EBITDA went up 127% in 2019 and it has net cash of \$3.5 billion. We expect it to grow in revenue and EBITDA in Q1 (results are yet to be announced). Our dairy business saw EBITDA jump 46% in Q1 YoY, probably because people in China increased consumption in the belief that dairy helps with the immune system. For China, production has been resumed but we expect the demand to take a couple of quarters to return to normal. The same can't be said for our portfolio companies in the U.S. and Europe where our exposure represents less than 10% of our portfolio. Now we make every effort to make sure that those companies conserve cash and liquidity to tide over the crisis. Fortunately we have structured every deal there with solid downside protection against good credit, so our investments will do OK anyhow.

**What has been hardest, both on a business and a personal level?**

The hardest part is not being able to travel.

**Most rewarding aspect?**

To know that our conservatism is paying off in this environment. We expect no permanent impairment from any of our investments.

**Any positive outcomes you see for PAG or more broadly? Do you expect changes, or are there changes that you would like to see?**

This is a good time to make investment in quality companies at a much more compelling valuation.