



Outlook for Private Equity

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Agenda

•Global Private Equity Activity: Characteristics and Developments

•MENA PE Performance, Outlook & Trends

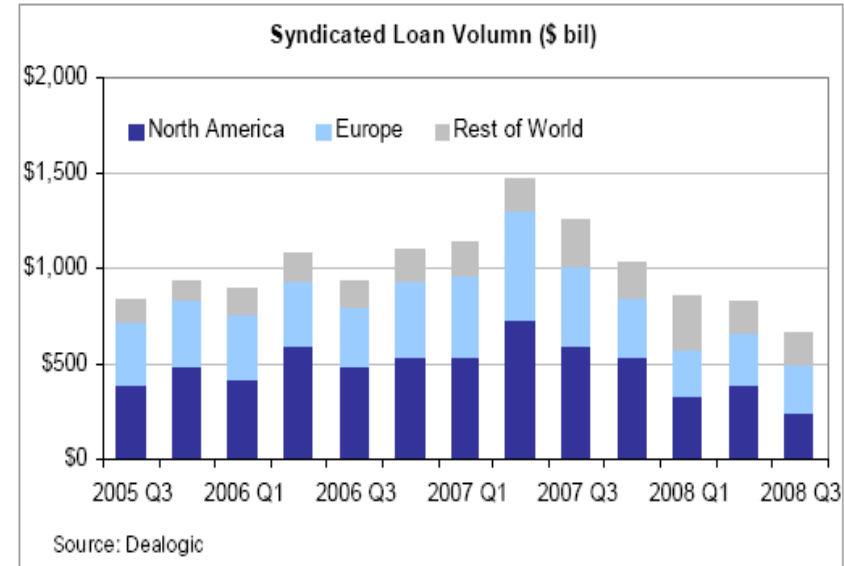
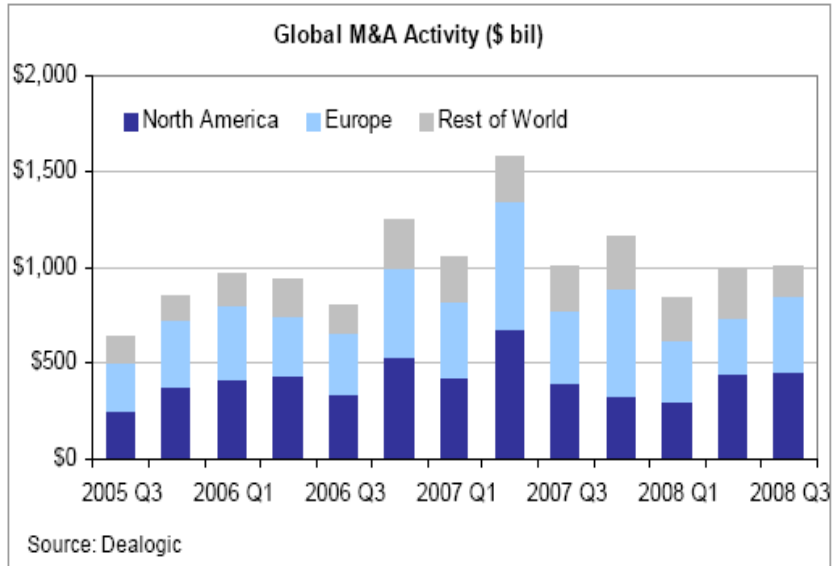
•Hawkamah & the Corporate Governance PE Taskforce

Private Equity: Global & Regional Developments 2008

- Global buyout volume in 2008 declined by 71% to \$185.5 billion from \$632.8 billion in 2007 as of Dec 12 of both years (Source: Dealogic)
- Buyout volume was \$27.4 billion in July 08 and \$12.3 billion in seasonally slow August. In November it plummeted to just \$2.2 billion and to \$1.7 billion (across 37 investments) in Dec 08.
- Meltdown hit the US the hardest : Volume down 84%, number of deals down 32%
- In contrast, for Europe: Volume was down 53%, deals down 30%
- Emerging Markets buyout volume declined by 44% - declines sharp in Eastern and Central Europe + India
- Asia – Pacific (more resilient): Volume down 31%, deals down 20%
- **Southeast Asia and Middle East saw an increase in dollar volume; number of transactions were flat or declined.**

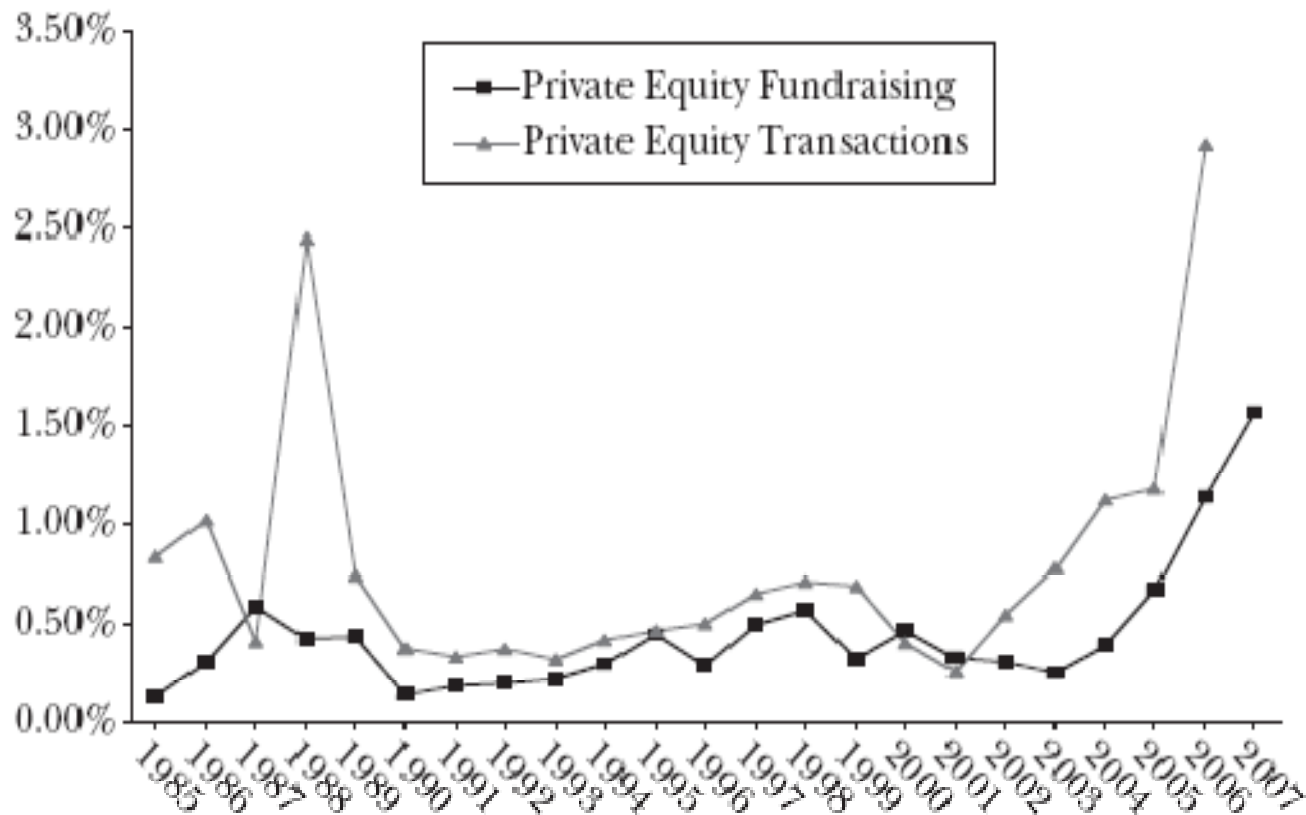
Volume of exits

- Globally, exits via M&A fell by 53% to \$146 billion in 2008 from \$ 309.3 billion a year ago. Of the \$146 bn total for the year 2008 (through Dec 15), only \$5.1bn of that was recorded in 4Q08.
- Dollar volume of secondary deals, plunged by 82%, but trade sales were only down 19%.
- Through early December, US based LBO firms, had raised around \$178 billion versus a total of \$244.5 billion in 2007.



Private equity commitments are pro-cyclical

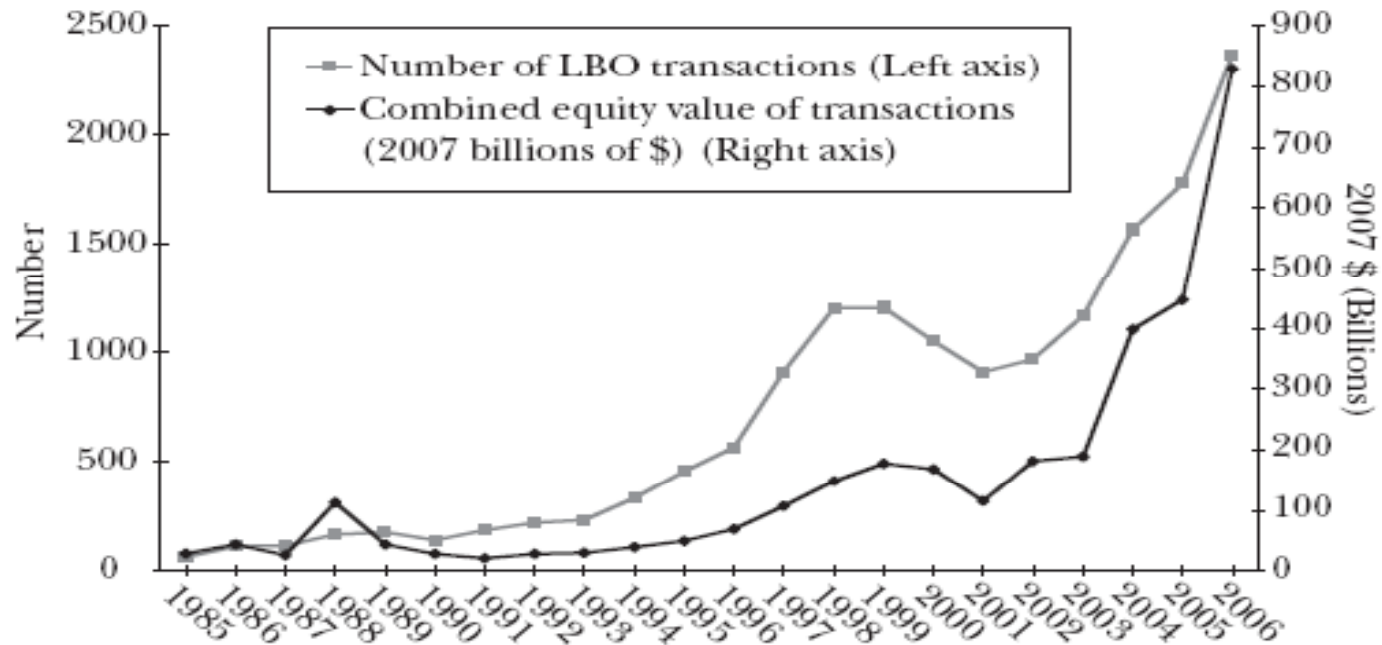
U.S. Private Equity Fundraising and Transaction Values as a Percentage of Total U.S. Stock Market Value from 1985 to 2007



Transaction Activity

- Buyout transaction activity mirrors the patterns in private equity fundraising.
- Transaction and fundraising volumes also exhibit a similar pro-cyclicality

Global Private Equity Transaction Volume, 1985–2006



Sources: CapitalIQ, Strömberg (2008), authors' calculations.

Note: "LBO" is "leveraged buyout."

Exit Characteristics

Exit Characteristics of Leveraged Buyouts across Time

<i>Year of original LBO</i>	<i>1970– 1984</i>	<i>1985– 1989</i>	<i>1990– 1994</i>	<i>1995– 1999</i>	<i>2000– 2002</i>	<i>2003– 2005</i>	<i>2006– 2007</i>	<i>Whole period</i>
Type of exit:								
Bankruptcy	7%	6%	5%	8%	6%	3%	3%	6%
IPO	28%	25%	23%	11%	9%	11%	1%	14%
Sold to strategic buyer	31%	35%	38%	40%	37%	40%	35%	38%
Secondary buyout	5%	13%	17%	23%	31%	31%	17%	24%
Sold to LBO-backed firm	2%	3%	3%	5%	6%	7%	19%	5%
Sold to management	1%	1%	1%	2%	2%	1%	1%	1%
Other/unknown	26%	18%	12%	11%	10%	7%	24%	11%
No exit by Nov. 2007	3%	5%	9%	27%	43%	74%	98%	54%
% of deals exited within								
24 months (2 years)	14%	12%	14%	13%	9%	13%		12%
60 months (5 years)	47%	40%	53%	41%	40%			42%
72 months (6 years)	53%	48%	63%	49%	49%			51%
84 months (7 years)	61%	58%	70%	56%	55%			58%
120 months (10 years)	70%	75%	82%	73%				76%

Note: The table reports exit information for 17,171 worldwide leveraged buyout transactions that include every transaction with a financial sponsor in the CapitalIQ database announced between 1/1/1970 and 6/30/2007. The numbers are expressed as a percentage of transactions, on an equally-weighted basis. Exit status is determined using various databases, including CapitalIQ, SDC, Worldscope, Amadeus, Cao, and Lerner (2007), as well as company and LBO firm web sites. See Strömberg (2008) for a more detailed description of the methodology.



MENA Private Equity Performance

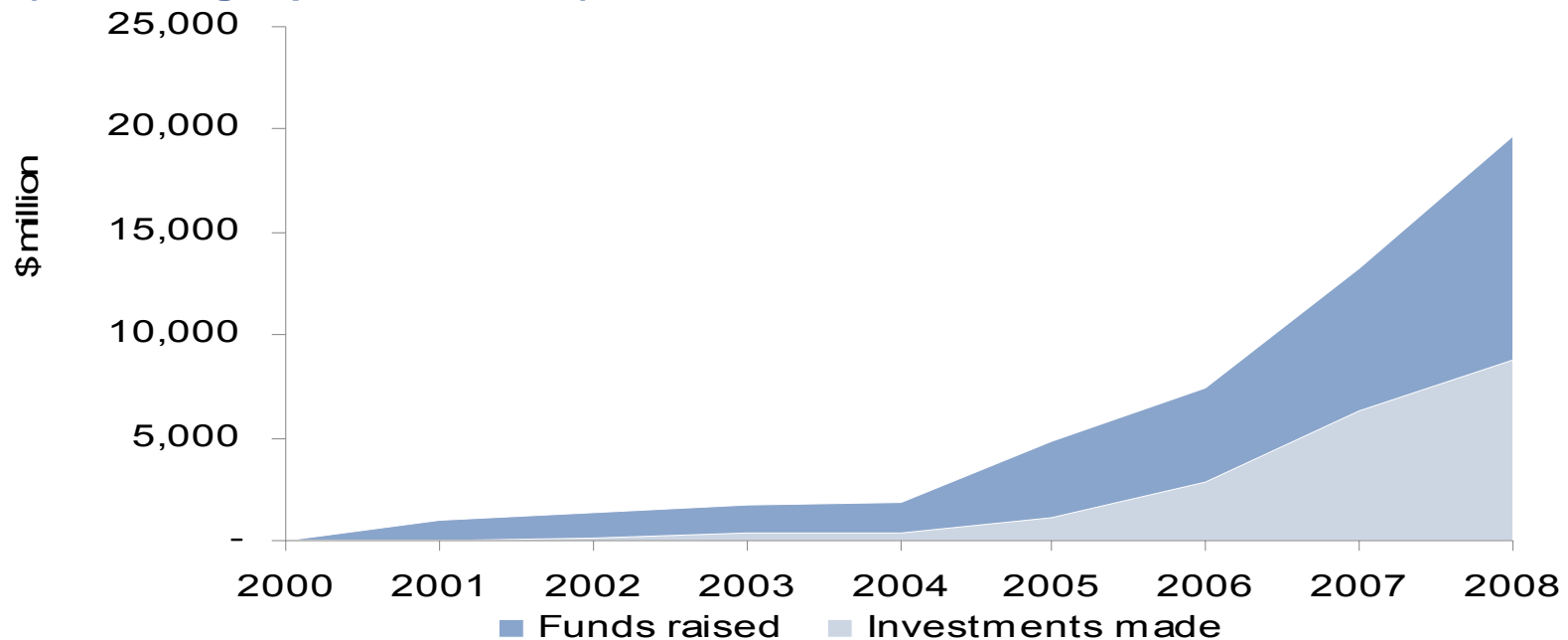
Overview

- MENA region has outperformed the Rest of the World
- Better prospects for the MENA region has been due to:
 - High growth in the region (2004-2008: 5.8%; 2008e: 5.9%, 2009f: 3.6%)
 - Demographics / young population => invest in social infrastructure
 - Extensive reforms in sectors like telecom & in countries like Egypt KSA and UAE imply ↑ opportunities for PE
 - Difference in size of economies (UAE ranks third in terms of attracting PE investment into the region; if we consider per capita, different story altogether!)
 - Family Owned Enterprises: opportunity for PE. However, we need to lower minimum listing requirements to facilitate market exit
- Corporate Governance & Hawkamah

Private Equity trends: MENA

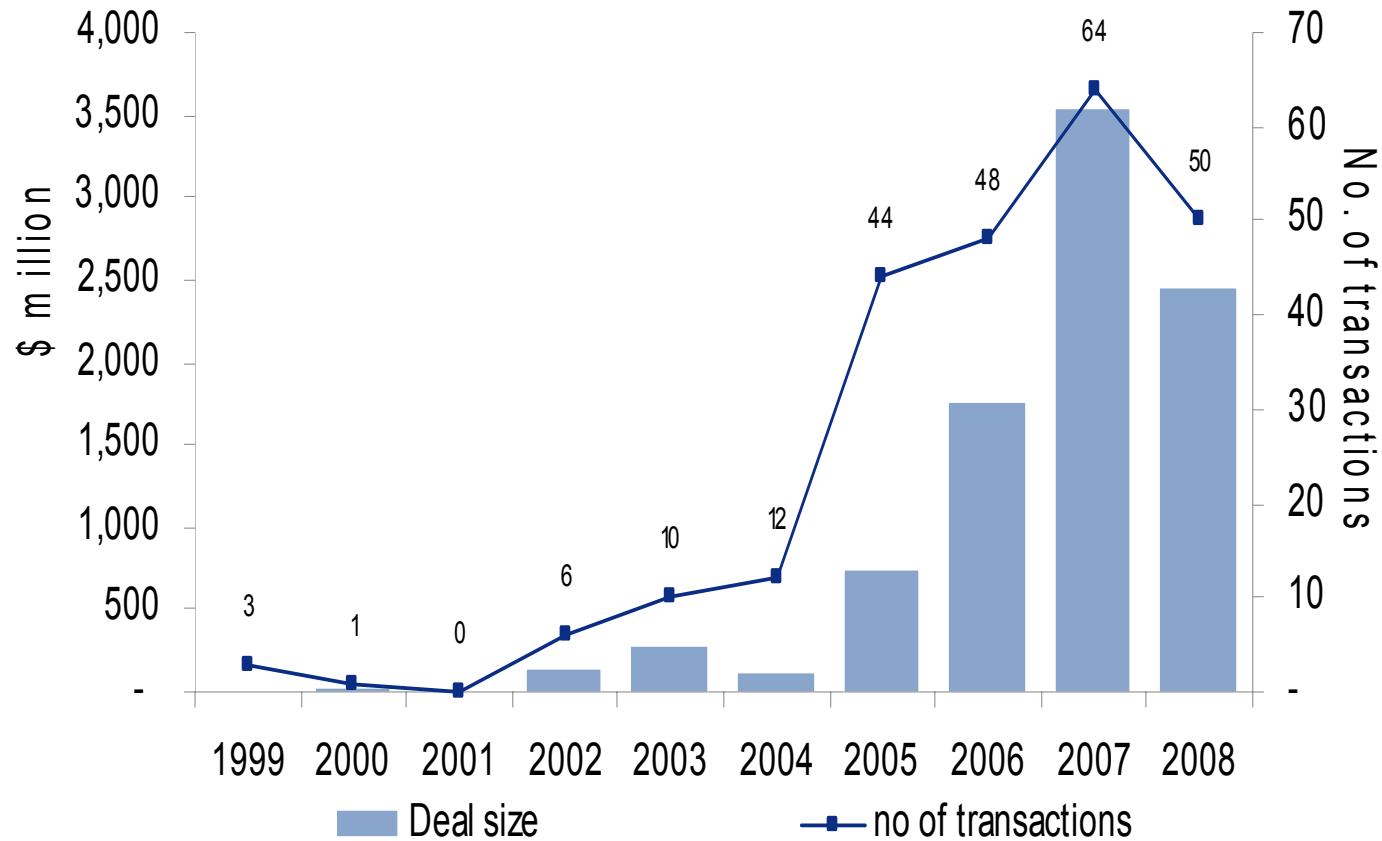
- The MENA region has been **fertile ground for fundraising activity, less for acquisitions.**
- Increase in fundraising + decrease in investing activity => significant accumulation of 'dry powder'/liquidity

**Cumulative funds raised and investments made since 2000
(excluding liquidated funds)**



Investments have fallen

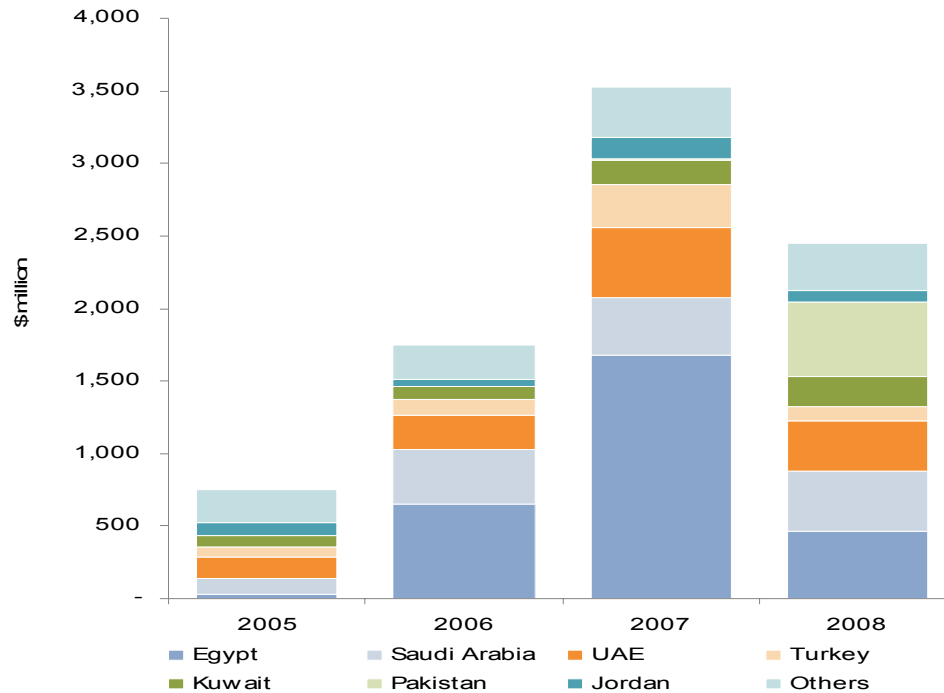
PE Investments in the last 10 years (1999 - 2008)



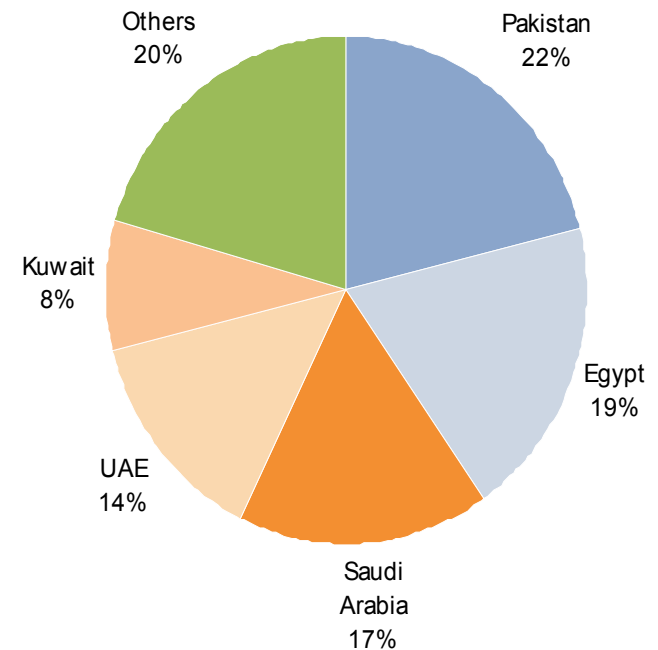
Regions of Investment

- **Areas of investment:** Investments over the last four years have focused primarily in
 - Egypt (2008: 19%, 2005: 33%)
 - Saudi Arabia (2008: 17%, 2005: 15%) and
 - UAE (2008: 14%, 2005: 14%)

Regional concentration of PE investments 2005 - 2008



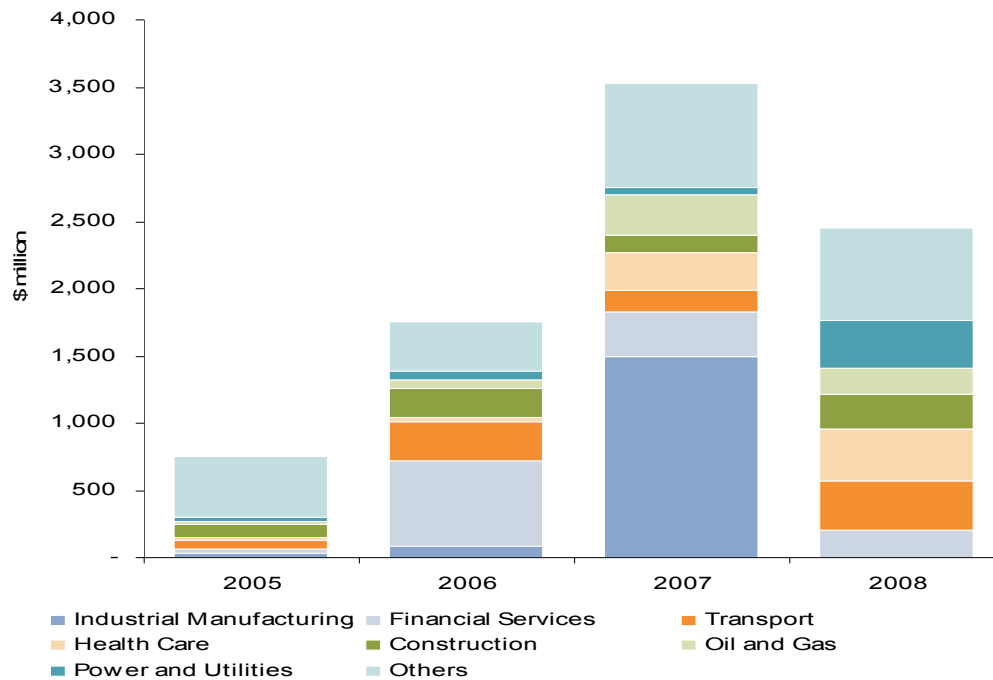
Regional split of PE Investments - 2008



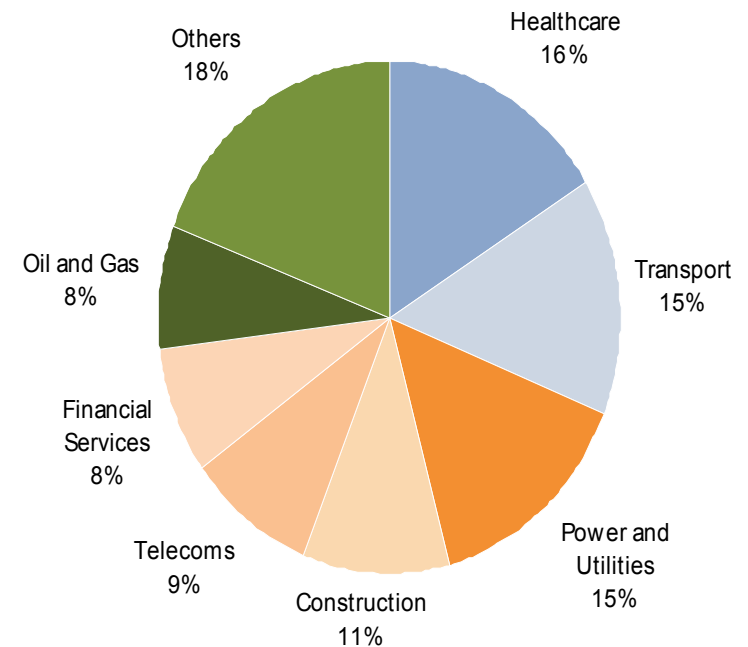
Sectors of Investment

- The **most dominant sectors for investments** in 2008 were Healthcare, Transport, and Power and Utilities.
- **Investment opportunities** are in social infrastructure, healthcare, education and food, energy-related industries and transportation/logistics.

Sector concentration of PE investments 2005 - 2008



Sector split of PE Investments - 2008



A black and white photograph of a modern building facade. The building features a prominent horizontal structural beam with a grid of windows above it. The facade is composed of large, rectangular panels. The text "Hawkamah & the PE CG Task Force" is overlaid in white on the lower part of the image.

Hawkamah & the PE CG Task Force

Hawkamah PE Corporate Governance Taskforce: Timeframe

Timeframe

1. Establishment of Task Force
2. Circulation of fact-finding questionnaire (March 2009)
3. Deadline for responses (May 2009)
4. Circulation of outline of policy brief (June 2009)
5. Meeting of Task Force (June 2009)
6. Public consultation period (July-September 2009)
7. Finalisation of policy brief at Task Force level (October 2009)
8. Launch of policy brief (November 2009)

Focus of the PE CG Task Force

The Task Force will focus on the following:

- The role and challenges of Private Equity managers in implementing Corporate Governance standards across portfolio companies
- The role of and challenges of Private Equity managers in implementing Corporate Governance standards at the level of their funds
- The Role of the boards in Private Equity
- The benefits of Corporate Governance to Private Equity investors
- The impact of Corporate Governance on the performance of the investee companies
- The implications of Corporate Governance principles during the investment, the fund management and the exit stages

Hawkamah PE CG Task Force will work on two levels

Portfolio company level

- Private Equity can potentially play a significant role in the diffusing corporate governance principles in the region's companies. To facilitate this process and to help further enhance awareness the industry's leading role in this field, **Hawkamah has set up the Task Force to develop good corporate governance guidelines for the PE backed companies in the region.**
- These guidelines would gather together good practice existing within the industry to provide help and assistance to those working in the industry and those coming into contact with the industry for the first time. In particular these guidelines should help the management of companies with private equity backing understand better the approach taken by their investors and the demands the relationship will put upon them.

PE firm level

Identify the best corporate governance practices within PE firms in:

1. Managing portfolio companies
 2. Reporting to outside investors (limited partners)
 3. More transparency to the general public
- The **policy brief will be a non-binding document.** It will identify objectives and proposals for achieving them, taking into account responses to a fact-finding questionnaire on Corporate Governance in the Private Equity industry.
 - The brief will be **addressed to privately-held companies, policy-makers, financial sector regulators and supervisors, and, last but not least, Private Equity managers.**

The objective for Hawkamah:

- A well-governed PE industry in the MENA will attract outside investment, and through investments in the regional companies, the industry will diffuse best corporate governance practices across the region.

Questionnaire: what is the purpose and expected outcome?

- The responses to the questionnaire will provide concrete information on the most relevant issues regarding Corporate Governance for Private Equity in the MENA, which the Task Force should address.

Guidelines for PE

- There have been calls for the PE industry to be regulated, especially in the Western markets. Arguably the PE industry could have avoided such calls had it been more open in the past. Additional transparency would help alleviate stakeholder concerns and would help demonstrate the value PE can add to investee companies and economies as a whole.
- In order to address some of the concerns, the PE industry has developed two major sets of governance guidelines for the PE industry:
 1. **The European Venture Capital Association** has produced “principle-based” guidelines and good practice in the management of privately held companies in the private equity and venture capital industry.
 2. **The Walker Guidelines** were recently introduced in the UK

The Guidelines propose that the *portfolio companies* should annually disclose:

- Identity of the private equity fund (or funds) that own the company
- Composition of the portfolio company’s board
- Financial review of the risk management and uncertainties facing the company

The Guidelines also propose that *a private equity firm* should publish a description of its investment approach, investment holding periods, leadership of the firm, arrangements for dealing with conflicts of interest, and categorization of its limited partners/investors.



Thank you