EMPEA

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Special Report

Private Equity in the Middle East and North Africa

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Project Team

Nadiya Satyamurthy, *Senior Director, Consulting Services*

Mike Casey, *Director, Consulting Services*

Molly Brister, *Senior Research Analyst*

Samuel Verran, *Consulting Services Fellow*

Guest Contributors

Walid Cherif, *Managing Director, Head of Gulf Credit Partners, Gulf Capital*

Shailesh Dash, *Founder and CEO, Al Masah Capital Limited*

Françoise De Donder Giraudon, *Managing Director, Association Marocaine des Investisseurs en Capital (AMIC)*

Claire Clutterham, *Senior Associate, Clifford Chance LLP*

William Fellows, *Managing Principal, Lixia Capsia*

Mounir Guen, *CEO, MVision Private Equity Advisers*

Basel Hussein Roshdy, *DBA, MBA, Managing Director and Chief Investment Officer, Nile Capital & IT Ventures*

Dr. Helmut M. Schuehsler, *Chairman and CEO, TVM Capital Healthcare Partners*

Matthew Showler, *Associate, King & Wood Mallesons*

Rashid Siddiqi, *Managing Director, NBK Capital Partners*

Dalia Tadros, *Executive Director, Egyptian Private Equity Association*

Nabil Triki, *Managing Director and Head of Private Equity, Swicorp*

Hamish Walton, *Partner, King & Wood Mallesons*

Nigel Wellings, *Partner, Clifford Chance LLP*

Ann Wyman, *Senior Manager, AfricInvest*

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Chairman and Chief Executive Officer, CITIC Capital

1077 30th Street NW • Suite 100 • Washington, DC 20007 USA
Phone: +1.202.333.8171 • Fax: +1.202.333.3162 • Web: empea.org

To learn more about EMPEA or to request a membership application, please send an email to info@empea.net.

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Private Equity in the Middle East and North Africa

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We would especially like to thank the following EMPEA Members for providing key thought leadership as well as the financial support necessary for this syndicated report:

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A Letter from EMPEA Consulting Services

Dear Reader,

EMPEA Consulting Services is pleased to present this *Special Report: Private Equity in the Middle East and North Africa,* EMPEA's first in-depth, comprehensive look at the asset class in this richly diverse region. Through this publication, we seek to provide a data-driven analysis of the broad range of private equity opportunities across these markets, complemented by a number of stakeholder perspectives.

Nearly all emerging markets have suffered from bouts of volatility over the last several years, however the Middle East and North Africa (MENA) has had a particularly challenging run. As the region's nascent private equity industry was just beginning to find its legs, the 2008-2009 global financial crisis hit, followed shortly thereafter by the Arab Spring—a series of revolutionary developments that reverberated across the region, resulting in widespread political instability and civil unrest. With the added pressure of dramatic fluctuations in currency, oil prices and local stock markets, it has been a challenging cycle for MENA's private equity fund managers.

Despite the obstacles, the industry has survived and—more importantly—grown stronger with the lessons learned during these testing times. Fundraising has picked up while investment activity has expanded across a wide variety of sectors, such as consumer goods and services, industrials, education and healthcare, in addition to oil and gas. There is a growing awareness amongst local entrepreneurs of the value that private equity partners can create, as well as a greater willingness within the next generation of family-owned companies to sell a portion of the business in the hopes of taking it to the next stage of development. More broadly, greater regional integration is not only facilitating opportunities within MENA's markets but also across Europe and Sub-Saharan Africa.

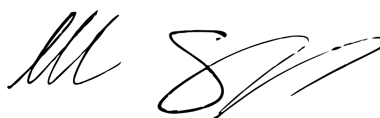
With fund managers in the region earning their stripes—and as the exit environment shows significant signs of improvement—institutional investors are taking a fresh look at a region that has historically been viewed more as a source of capital than a destination for funds. We've seen this change in sentiment firsthand through EMPEA's annual *Global Limited Partners Survey*, which shows the region slowly climbing back up the rankings in terms of attractiveness for general partner investment from a last-place standing in 2013.

Information on private investment in the Middle East and North Africa remains relatively difficult to source. Accordingly, we'd like to thank our report sponsors, EMPEA member firms active in the region, and our local private equity and venture capital association partners, who have helped us in building a robust data set and whose perspectives—as highlighted across these pages—make the case that the asset class is entering a new and promising phase.

We hope that you enjoy this publication, and that it contributes to a substantive dialogue about the changing landscape in the region. We believe that private equity can play a critical role in driving private sector development, and are hopeful that the asset class can help build meaningful opportunities for the region's people.

As always, we welcome any feedback you may have at consulting@empea.net.

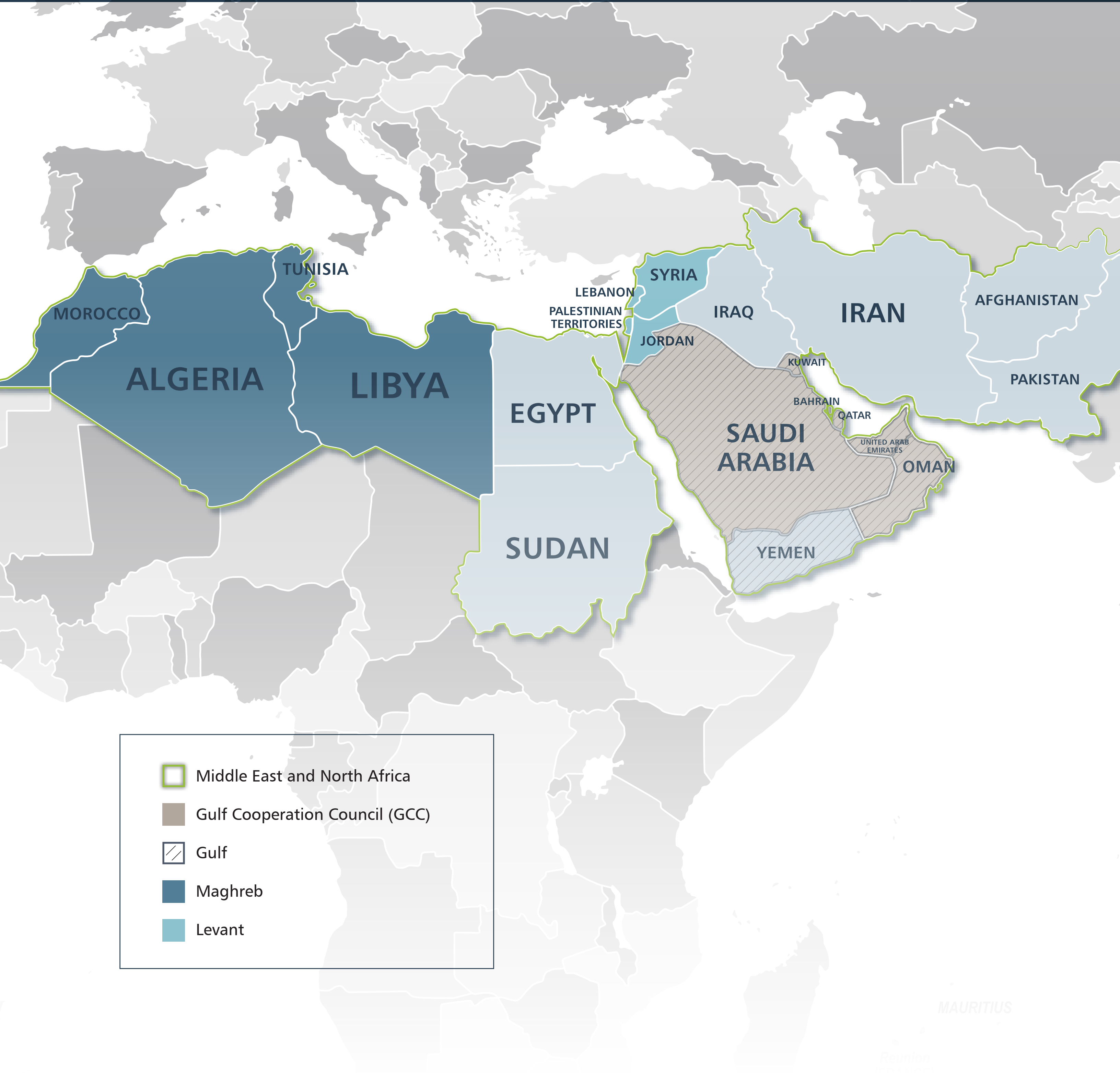
With our sincere thanks,



Nadiya Satyamurthy
Senior Director, Consulting Services
EMPEA

Mike Casey
Director, Consulting Services
EMPEA

An Introduction to Private Equity in the Middle East and North Africa



Geographically situated at the heart of some of the world's most important trade routes, the countries comprising the MENA region are richly diverse culturally, politically and economically. Stretching from the Maghreb in the west, and moving east through Egypt and the Levant to the Gulf, each of these markets possess distinct histories—from the ancient Mediterranean civilizations of Carthage and Phoenicia, to the sultans and wayfarers who plied the Indian Ocean spice trade. Far from a monolithic region, the origin of unity may very well be the extraordinary expansion of Islam during the 7th and 8th centuries.

Categorizations of this region have historically been quite fluid and nearly every stakeholder views the market through a unique lens. Cem Bayulgen, Managing Director at NBK Capital Partners, observes "MENA is a very broad term—and every GP has a different definition. There are a lot of different economies with different dynamics lumped into this one acronym." Nonetheless, despite this diversity, Western observers of—and investors in—the Middle East and North Africa have come to conceive of these economies as one larger mosaic.

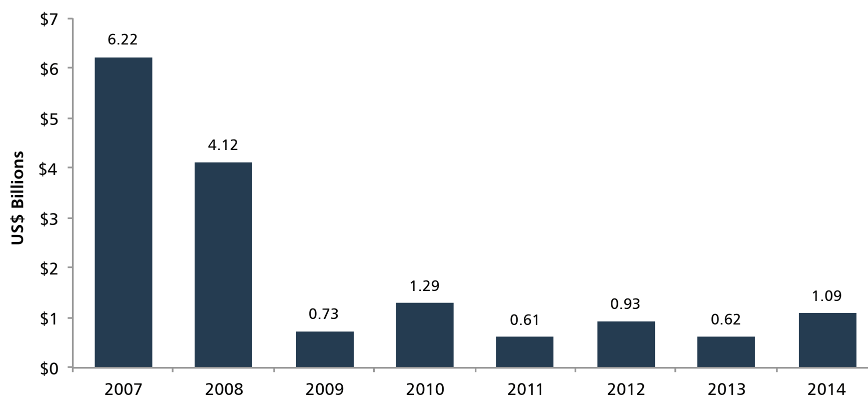
A Fledging Private Equity Industry

Having begun in the late 1990s, the private equity industry in the Middle East and North Africa has a shorter history than most emerging market regions. In its earliest days, the asset class received a significant amount of interest from local—primarily GCC-based—limited partners, which led to a large number of first-time funds raising a sizable amount of capital in a short amount of time. In 2007, more than US$6.2 billion was raised by funds dedicated to investing in the region (see Exhibit 1).

However, the party proved to be short-lived; with the onset of the global financial crisis, the asset class nearly disappeared as quickly as it had emerged. By 2009, fundraising had slowed to just over US$700 million, a drop of over 82% from the prior year. Amitava Ghosal, a Partner with Al Masah Capital Limited, notes, "The 2008 global financial crisis was a sobering experience for many firms. The worldwide downturn from 2009 to 2010 resulted in a shakeout of the industry; the most serious players have survived, but many of the small funds have wrapped up their operations and closed shop."

Echoing this sentiment, Nabil Triki, Managing Director and Head of Private Equity at Swicorp, observes, "This is probably one of the only emerging market regions where the asset class developed in a geography in which there is a lot of local liquidity. If you look at Asia, Africa and Latin America, you'll find that private equity evolved gradually beginning in the early 1990s, with small GPs raising small amounts of money mainly from development finance

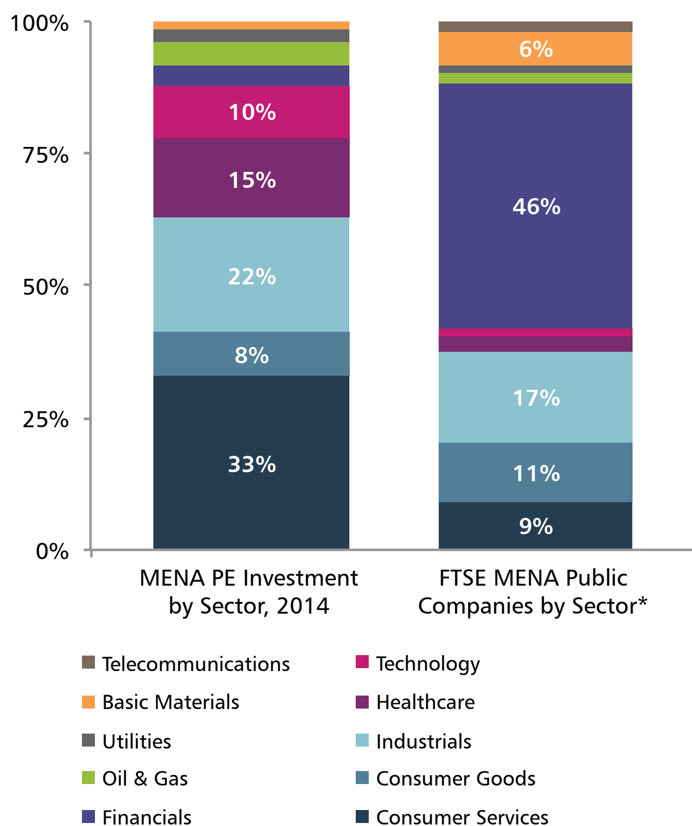
Exhibit 1: MENA Fundraising, 2007–2014



Source: EMPEA. Data as of March 2015.
Note: Includes disclosed non-traditional private equity vehicles such as co-investment, debt, infrastructure and other platform structures.

> "Despite all that has happened in the region, we've never invested as much as we have during the last four years. We expect the coming years to be even better.
>
> –Ziad Oueslati
> *Managing Director and Co-founding Partner of AfricInvest*

Exhibit 2: MENA Investment by Sector, 2014
FTSE Public Market Comparison



Source: EMPEA, FTSE International Limited (FTSE). Data as of March 2015.
* Includes companies primarily traded on stock exchanges in the following countries: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.

institutions, and then growing gradually into their second and third funds as the economies developed. In the MENA region—and the GCC in particular—significant pools of local capital resulted in a very rapid growth of assets under management between 2004 and 2008. This was unhealthy because it created an environment in which inexperienced GPs invested at the peak of the cycle, and then spiraled downward between 2009 and 2012."

And just as those fund managers who had survived the global financial crisis sought to regain their footing, the next inflection point for the industry hit with the emergence of the Arab Spring, a wave of revolutionary protests that began in December 2010 and swept across the region, leading to government transitions in Tunisia, Egypt, Libya and Yemen, and inspiring civil unrest more broadly. With the onset of the European sovereign debt crisis, as well as volatility in both currencies and oil prices, private equity investors in the MENA region were continuing to face a bumpy ride.

The turmoil in the region took its toll on investor sentiment. With several fund managers struggling to keep portfolio companies afloat within the lifecycle of their private equity funds, and with a difficult exit environment placing a drag on returns, many of the investors who had poured money into the asset class in the early years pulled back. In EMPEA's 2009-2013 *Global Limited Partners Surveys*, the region ranked near or at the bottom vis-à-vis all emerging market regions in terms of attractiveness for GP investment, with concerns over political risk, a challenging regulatory and tax environment, and a limited number of established fund managers being the greatest deterrents to investment.

Time for a Second Look

While it has certainly been a challenging few years for the industry in the Middle East and North Africa, signs of renewed interest in the region are evident. In EMPEA's most recent *Global Limited Partners Surveys*, the Middle East and North Africa has begun to slowly climb back up in the rankings—even jumping to sixth place (out of ten) in terms of overall attractiveness in 2014—and LPs are following through with commitments as MENA-focused private equity fund managers raised nearly US$1.1 billion in 2014. These funds represented 2% of all emerging markets fundraising, up from 1% in both 2013 and 2012.

What is driving this gradual shift in sentiment? One notable factor is the strength of the teams that are active in the region. While the current roster of fund managers is much shorter, many industry experts agree that they are more seasoned. After reflecting upon the shakeout that occurred following the global financial crisis, Al Masah Capital Limited's Ghosal adds, "This was good in the sense that the firms that are now operating in the Middle East are more serious and capable entities." This has proven to be true across the region—the players that have survived over the past several years now have an arsenal of lessons learned with which they can assist current and future portfolio companies. In particular, a greater focus on due diligence, operational expertise and the value creation process, as well as the path to exit, has ultimately resulted in a much more mature and professionalized asset class.

A strong macroeconomic story—which will be explored in greater detail in the next section of this report—is also enticing investors to take a fresh look at the region. Favorable demographics, high disposable incomes across a number of markets, significant GDP growth forecasts and an increase in economic diversification are all contributing to the region's attractiveness. In addition, there is a growing appreciation amongst institutional investors that public market exposure alone is not sufficient to capture this opportunity. An analysis of private equity investments made in 2014 versus the public market equivalent reveals that private equity deals in the consumer space represented 41% of transactions by number in comparison to 20% of the companies represented on the listed side (see Exhibit 2). In contrast, the public bourses are dominated by financial services companies, which represented 46% of all listings as of March 2015.

Another signpost that may point investors in the direction of reconsidering the region is that its private equity participants are largely optimistic about the next phase for the asset class. As Ziad Oueslati, Managing Director and Co-founding Partner of AfricInvest, remarks, "Despite all that has happened in the region, we've never invested as much as we have during the last four years. And at the same time, the exit environment is improving nicely. We expect the coming years to be even better."

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MENA's Macroeconomic Environment—The Region's Fundamentals May Surprise You

Seven years on from the global financial crisis, six years on from Dubai's debt crisis and nearly five years on from the inception of the Arab Spring, most economies in the Middle East and North Africa have regained their footing. Recently, however, volatility has buffeted currencies in the region, a strengthening U.S. dollar has created competitiveness challenges for the markets that maintain currency pegs, and the dramatic decline in the price of crude oil since the summer of 2014 has put pressure on a number of governments' fiscal positions. The trajectory of the region's growth path may very well remain an open question.

Beyond the headlines, however, the contours of economic activity at the macro level across the Middle East and North Africa present a compelling picture. As Dr. Karim El Solh, CEO at Gulf Capital, relays, "When you look at the fundamentals of the MENA region—the strength of the macro-economy of the GCC, the huge fiscal reserves, the strong demographic trends, the high purchasing power, the changes in consumer habits taking place—you have a great story." An examination of these long-term fundamentals at the regional level—including the scale of opportunity, the diversification of economic activity, the strength of consumption and a slowly improving regulatory environment—may very well surprise potential investors.

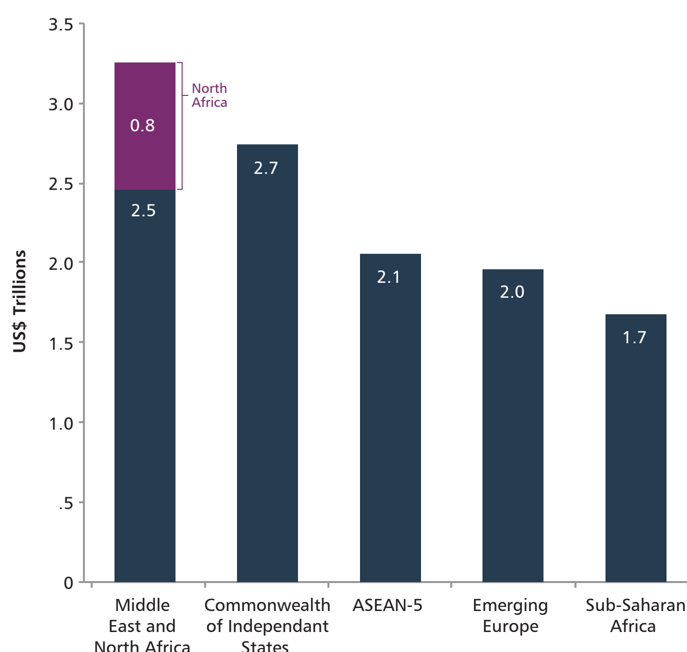
The Scale of Opportunity

The MENA region represents one of the larger economic blocs in the emerging markets. Combined, the Middle East and North Africa constitute a US$3.3 trillion economy, nearly 60% larger than the ASEAN-5 countries of Indonesia, Malaysia, the Philippines, Thailand and Vietnam, and almost double the size of Sub-Saharan Africa (see Exhibit 3)—both of which global LPs have deemed to be amongst the three most attractive markets for GP investment in recent years as per EMPEA's annual *Global Limited Partners Survey.* Moreover, six of the 25-largest economies across the emerging markets hail from the MENA region—Saudi Arabia, the United Arab Emirates, Iran, Egypt, Iraq and Algeria. When combined, the output of these six economies in 2014 (at US$2.3 trillion) exceeded the GDP for Brazil (US$2.2 trillion), Russia and India (US$2 trillion each).[1]

In spite of the political turbulence attendant with the Arab Spring and the tragic internecine conflicts currently besetting Libya and Syria, the Middle East and North Africa will be the third-fastest growing region of the world in 2015, and the IMF projects that it will retain this position over the next four years—outpacing Emerging Europe, Latin America and the G7 economies (see Exhibit 4).

Exhibit 3: MENA represents a US$3.3T economy; ~60% larger than ASEAN-5

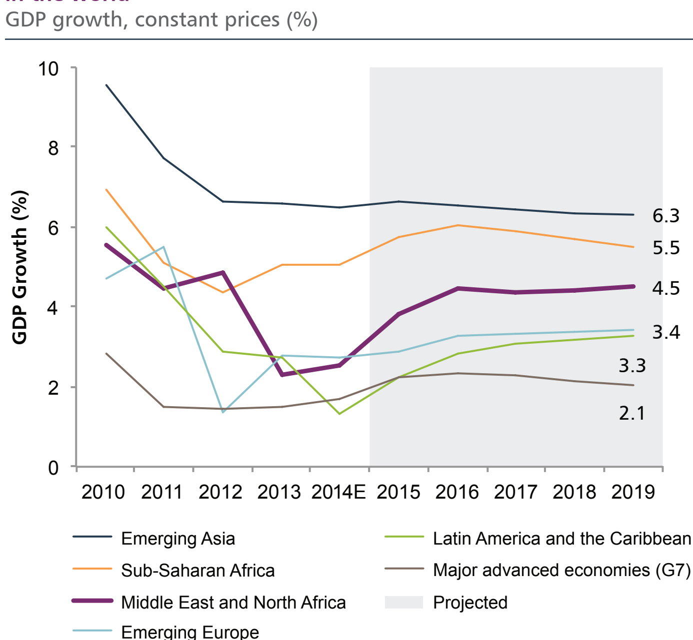
2014 GDP, current prices (US$T)



Note: Middle East excludes data for Afghanistan, Pakistan, the Palestinian Territories and Syria.
Source: IMF, October 2014 World Economic Outlook.

Exhibit 4: MENA is forecast to be third-fastest growing region in the world

GDP growth, constant prices (%)



Source: IMF, October 2014 World Economic Outlook.

1. World Bank. 2014 GDP on current US$ basis.

A Diversifying Economic Base

Beyond the scale of economic activity—and the pace at which it is growing—lies a story of greater diversification, new trade opportunities and increasing regional integration. Despite its reputation as a home for oil-producing economies, the MENA region has exhibited a gradually diminishing dependence upon oil and gas production amidst an expansion of activity in a growing number of sectors. According to UN figures, the contribution of mining and utilities activity—including oil and gas production—to Middle East GDP declined from 44% in 2008 to 42% in 2013, while in North Africa the decline was from 34% to 23% over the same period.[2] Activity in other sectors, including financial services, real estate, professional services, manufacturing and construction has been driving economic expansion.

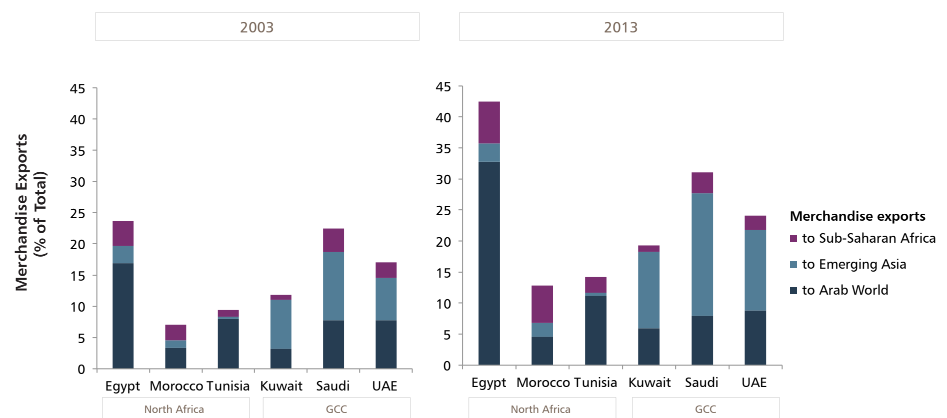
In addition to the richer sector composition of local economic growth, the region's companies are capturing opportunities with new export markets, and economies are exhibiting shifting directions of trade. For example, Egypt and Tunisia have become more integrated with the Arab World, increasing the percentage of their merchandise exports to markets in the region (see Exhibit 5). Meanwhile, the Gulf economies of Kuwait, Saudi Arabia and the UAE have dramatically increased the percentage of their merchandise trade with Emerging Asia, ranging from 7% to 11% of exports in 2003, to 12% to 20% in 2013.

One of the more notable developments on this front is North Africa's integration with fast-growing economies in Sub-Saharan Africa. As Sofiane Lahmar, Partner at Development Partners International (DPI)—a pan-African private equity fund manager—notes, "There is a clear trend of North African companies expanding into Sub-Saharan Africa. Moroccan businesses have been at the forefront of this trend, particularly in sectors such as banking, insurance and telecoms. We are increasingly seeing this inclination with Egyptian and Algerian companies as well, and we will certainly look to capitalize on this development. In fact, all of the North African companies in which we have invested have a dimension of pan-African expansion to their growth plans."

The data bear this out, particularly with respect to Morocco, which grew its share of merchandise exports to Sub-Saharan Africa from 2.5% in 2003 to 6% in 2013. Mirroring the activity of companies in the region, leading MENA-focused fund managers—including AfricInvest and Swicorp—are pivoting to include Sub-Saharan Africa in their remit.

Exhibit 5: North Africa is becoming more regionally integrated, while GCC is capturing markets in Emerging Asia

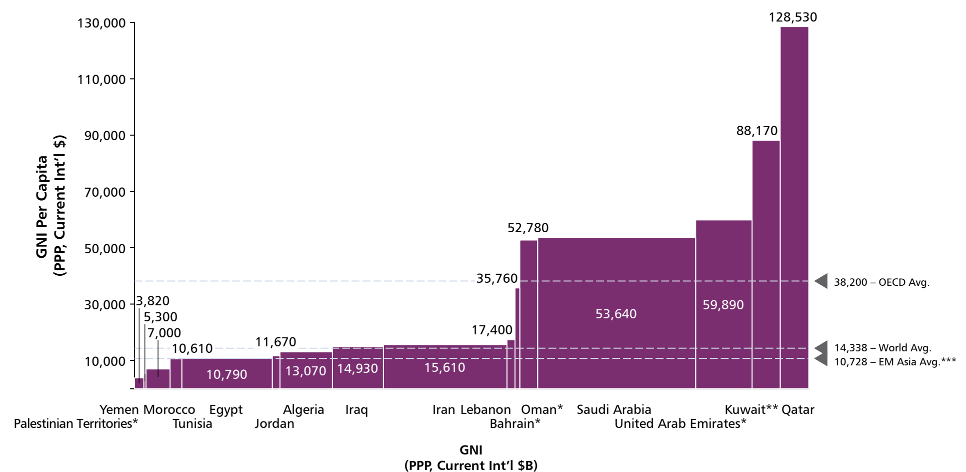
Merchandise exports to select developing regions (% of total merchandise exports)



Source: World Bank Data Bank, accessed March 2015. Analysis by EMPEA Consulting Services.

Exhibit 6: Per capita incomes in the Gulf exceed world and OECD averages

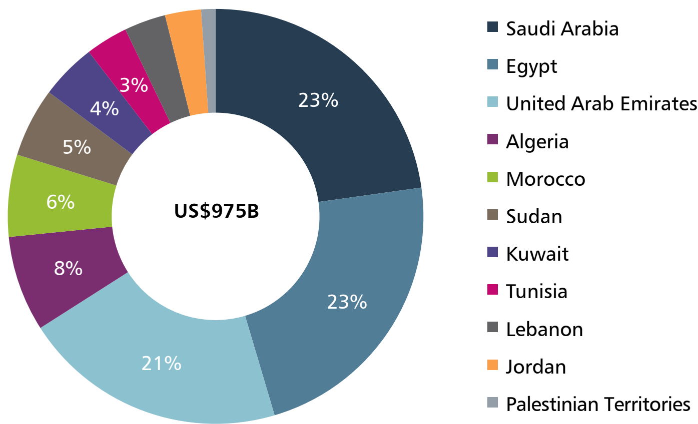
GNI per capita PPP (current int'l $); GNI PPP (current int'l $B)



* Data from 2012.
** Data from 2011.
*** EM Asia refers to Developing East Asia and Pacific.
Source: World Bank Data Bank, accessed March 2015. Analysis by EMPEA Consulting Services.

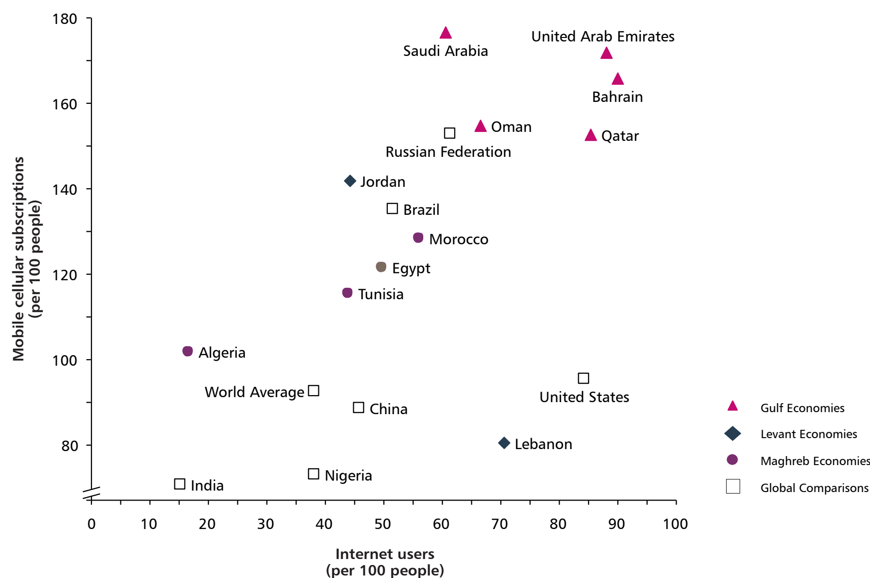
2. United Nations Statistics Division.

Exhibit 7: Eleven MENA economies generate nearly US$1T in household consumption
Household consumption expenditures (2013, Current US$)



Note: Excludes Bahrain, Iran, Iraq, Libya, Oman, Qatar, Syria and Yemen—all of which were missing data for 2013.
Source: World Bank Data Bank, accessed March 2015.

Exhibit 8: MENA economies are amongst the most digitally connected in the world
Internet users and mobile cellular subscriptions (per 100 people)



Source: World Bank Data Bank, accessed March 2015. Analysis by EMPEA Consulting Services.

Incomes and the Digitally Connected Consumer

Given the vast amount of oil wealth in the region—particularly in the Gulf—one might expect that MENA economies would register some of the highest per capita incomes in the world. Just how high, however, may be a surprise. Saudi Arabia, for example, generated GNI per capita of US$53,640 in 2013—40% above the OECD average—while smaller economies such as Kuwait and Qatar exceeded the OECD average by 130% and 236%, respectively (see Exhibit 6). Even outside the Gulf, GNI per capita in Algeria, Egypt, Lebanon, Jordan and Tunisia approaches, and in some instances exceeds, averages for Developing East Asia and the world as a whole.

These relatively high incomes are fueling sizable consumer spending. Eleven out of 19 countries in the region generated US$975 billion in household consumption expenditures in 2013 (see Exhibit 7)—a figure approaching the total household consumer spend for Sub-Saharan Africa. The volume of these cash flows is driving demand for new products and services in an array of sectors, including automotives, education, healthcare, housing, financial services and food products.

Much of the region's population has already channeled its personal expenditures toward technology. Indeed, MENA economies are amongst the most digitally connected in the world, with a concentration of Internet users and mobile phone subscriptions exceeding the world average (see Exhibit 8). A number of countries in North Africa exhibit greater digital connectivity than large emerging markets including China, India and Nigeria; while in terms of mobile subscriptions the Gulf economies exceed Russia and the United States.

Eleven out of 19 countries in the region generated US$975 billion in household consumption expenditures in 2013—a figure approaching the total household consumer spend for Sub-Saharan Africa.

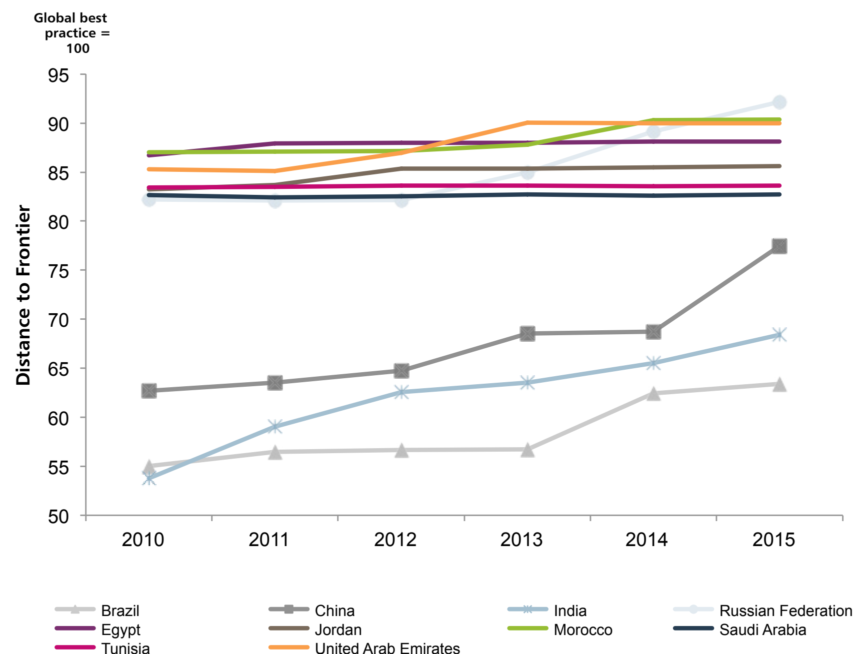
With nearly 162 million people between the ages of five and 24, the MENA region has one of the youngest populations in the world; and, with more than 20% of its population between the ages of 15 and 24, it has the largest concentration of young people of working age out of any region.

This penetration of Internet and mobile technology is fostering the development of new business models that are capturing consumer spending. Investors have been keen to do deals in the space—from The Abraaj Group's investment in the Arab Internet services provider Maktoob a decade ago, to Rocket Internet's recent aquisition of Kuwaiti food delivery company Talabat—and there is a flurry of activity funding entrepreneurial ventures in early-stage segments of the market (see Spotlight on *Demographics and Entrepreneurship in the MENA Region*).

A Challenging Regulatory Environment Shows Signs of Reform

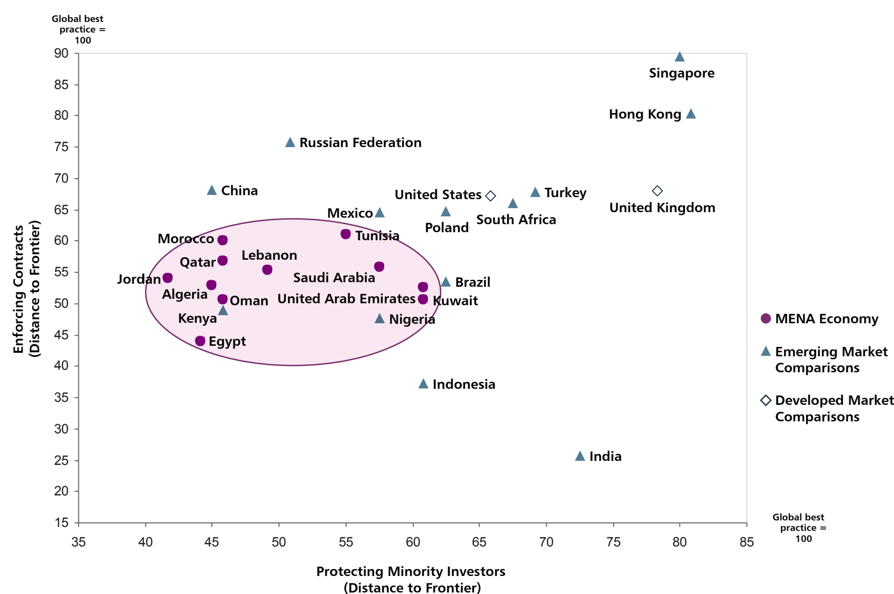
In addition to the region's compelling macro trends, an array of regulatory enhancements is making for a generally more favorable investment environment, although some challenges remain. Seven of the region's economies are ranked in the top 75 countries according to World Bank's 2015 Doing Business index, performing better than larger emerging market countries such as China (90), Brazil (120) and India (142), while three—the United Arab Emirates, Saudi Arabia and Qatar—ranked in the top 50. While there is still significant room for improvement, particularly in North Africa, many of these markets are exhibiting promising reforms. The MENA region's performance along two dimensions—the entrepreneurial environment and investor protections—merit closer attention.

Exhibit 9: Opening a business in MENA can be easier than in Brazil, China and India
Ease of starting a business (distance to frontier; global best practice = 100)



Source: Doing Business, The World Bank (http://www.doingbusiness.org). Accessed March 2015.

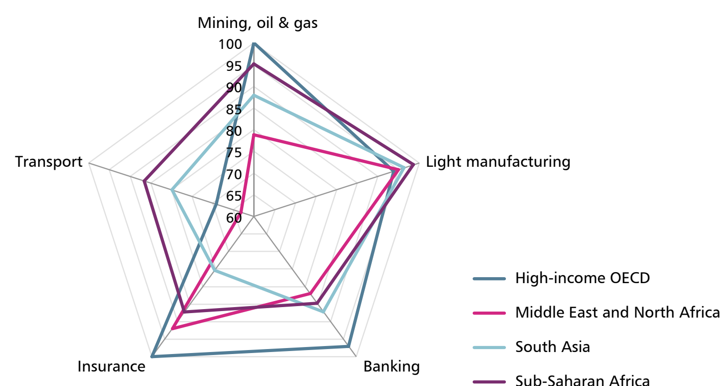
Exhibit 10: Reforms toward contract enforcement, investor protections would enhance the MENA region's global competitiveness
Enforcing contracts and protecting minority investors (distance to frontier; global best practice = 100)



Source: Doing Business, The World Bank (http://www.doingbusiness.org). Accessed March 2015. Analysis by EMPEA Consulting Services.

Exhibit 11: MENA lags behind other regions in receptiveness to foreign ownership in some sectors

Statutory limits on percentage of foreign equity ownership (%)



Source: World Bank, Investing Across Borders. Accessed March 2015.

With respect to the ease of starting a business, economies within the MENA region exhibit a more favorable environment than many of the markets attracting the greatest amount of capital in emerging markets private equity, including China, India and Brazil. Indeed, the processes for starting a business in Egypt, Morocco and the United Arab Emirates are much closer to international standards than those found in the aforementioned countries (see Exhibit 9). While there is certainly scope for better alignment with global best practices, the generally favorable environment for starting a business—at least in the countries highlighted in Exhibit 9—is conducive to entrepreneurship and future deal flow.

Exhibit 12: Overview of Foreign Ownership Restrictions by Country

Country	General Restrictions on Foreign Ownership	Details	Agriculture and Forestry	Mining and Oil / Gas	Electricity	Tourism	Media	Telecom	Financial Services	Education
Algeria	49%	Most businesses are required to maintain majority Algerian ownership, limiting opportunities for control acquisitions. Exceptions exist for import businesses, where foreign ownership up to 70% is permitted.	49%	49%	39%	49%	25%	49%	49%	49%
Egypt	80% - 90%	Limits do not exist on foreign ownership in most sectors. Exceptions include banking, media and upstream oil and gas businesses.	100%	100%	100%	100%	50%	100%	100%	49%
Iraq	60% - 70%	Foreign investors are permitted to take controlling stakes in many sectors, including manufacturing, telecom, and financial services.	0%	0%	80%	100%	100%	100%	100%	49%
Morocco	80% - 90%	Limits on foreign ownership are minimal, with investors granted freedom to establish or acquire businesses. Foreign ownership is restricted in certain subsectors of transportation and electricity industries.	100%	88%	60%	100%	100%	100%	100%	100%
Saudi Arabia	70% - 80%	Saudi Arabia mantains a negative list of industries in which foreign control is not permitted, including certain segments in petroleum, publishing, media and transportation services. Majority control is possible in many sectors including light manufacturing, banking and insurance.	100%	50%	100%	100%	0%	70%	60%	100%
Tunisia	70% - 80%	Limits do not exist on foreign ownership in most export-oriented businesses but investors are restricted to minority stakes for businesses considered "onshore" entities. Foreign participation in state privatization programs is permitted, with activity taking place in telecommunications, banking, insurance, manufacturing and petroleum distribution.	83%	100%	60%	100%	50%	100%	100%	50%
United Arab Emirates (in free zones)	100%	Limits on foreign ownership extend across sectors, but are not applicable in free zones where foreign ownership can reach 100%.	100%							
United Arab Emirates (outside free zones)	49%		49%							

Sources: Oxford Business Group, Santander Trade, U.S. Department of State, World Bank.

Two areas where even the region's most favorable business environments lag behind global standards are contract enforcement and protections for minority investors (see Exhibit 10). While the ability of investors to enforce contracts in most countries in the region is greater than in other popular emerging market destinations for private equity investors, such as India, Indonesia, Kenya and Nigeria, it underperforms alternative markets for capital deployment, including China, Mexico and Russia. In addition, the region trails both developed and emerging market comparables with respect to protection for minority investors.

One additional indicator in which MENA as a whole competes less favorably with other regions is limits on foreign equity ownership (see Exhibit 11). In several capital-intensive sectors, such as oil / gas and transportation, the region is less permissive than many other emerging regions—including South Asia and Sub-Saharan Africa. However, when segmented by country and sector, outlier markets prohibiting control positions include Algeria and the United Arab Emirates outside of established free zones (see Exhibit 12). At the more granular level, most sectors in most markets are open for acquisition.

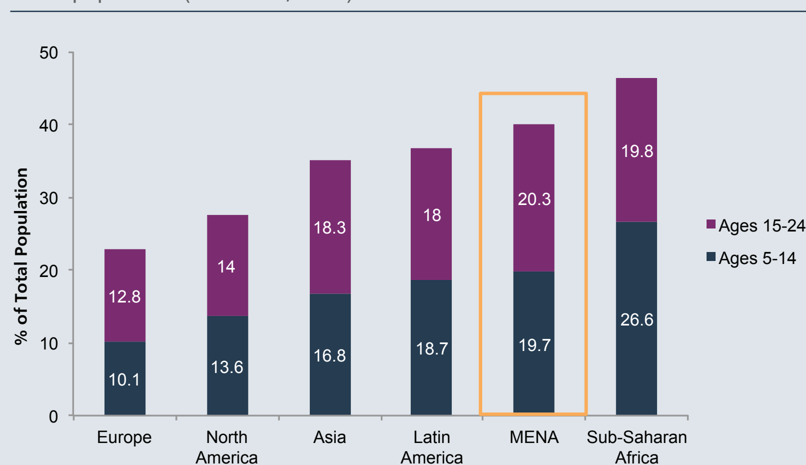
Continued reforms in these areas should enhance the region's competitiveness and make it a more favorable region for private equity investment—thereby expanding the pools of capital and management expertise available to local businesses.

Spotlight: Demographics and Entrepreneurship in the MENA Region

With nearly 162 million people between the ages of five and 24, the MENA region has one of the youngest populations in the world; and, with more than 20% of its population between the ages of 15 and 24, it has the largest concentration of young people of working age out of any region (see Exhibit 13).[3] To put the scale of its young working-age population in perspective, this demographic cohort is equal to more than 85% of the figure for 15-24 year olds living in all of Europe and Russia, despite the Middle East and North Africa collectively having a total population that is half the size.

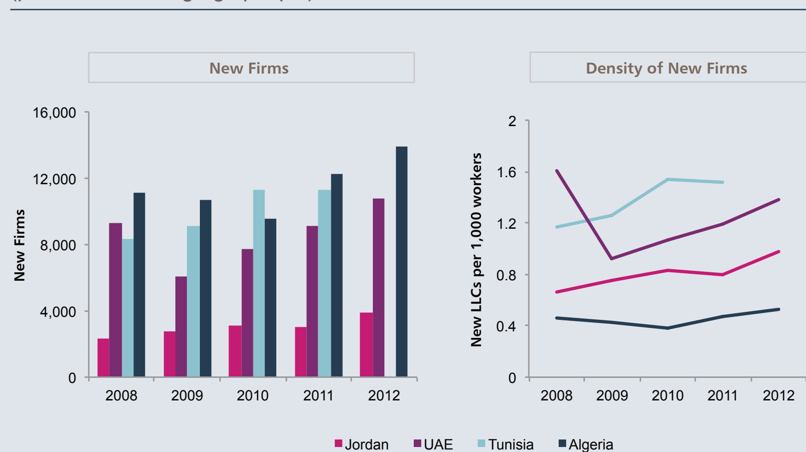
While the youth bulge in the Middle East and North Africa presents a number of economic and political challenges—particularly around the ability of countries to absorb youth into the formal economy's workforce—this demographic profile is fueling a vibrant and energetic entrepreneurial culture.[4] Though data are sparse, the number of new firms in Jordan, for example, grew 67% between 2008 and 2012, while the density of new firms created has been increasing in a number of markets including the United Arab Emirates and Algeria (see Exhibit 14).[5] With the region's high degree of digital connectivity, and the demonstration effect of local, high-profile entrepreneurial successes, such as Maktoob—an Arab Internet services company that was acquired by Yahoo! in 2009—young entrepreneurs are embracing a start-up culture and beginning to shed the fear of failure. Walid Hanna, Managing Partner at Middle East Venture Partners, relays, "The entrepreneurial environment started to transform in 2012, and the awareness of venture capital is increasing among both investors and business owners. The amount of capital being raised to invest in knowledge-based start-ups is accelerating in line with growth in the digital economy. However, at the seed stage, there's a lack of high-quality guidance, liquidity and mentorship, so we could use more incubators and accelerators in the region."

Exhibit 13: The MENA region is one of the youngest in the world
Youth population (% of total, 2010)



Source: United Nations, *World Population Prospects: The 2012 Revision*.

Exhibit 14: Entrepreneurship has been growing in the region
New firms; newly registered limited liability companies (per 1,000 working-age people)



Source: World Bank Data Bank, accessed March 2015.
Notes: Density of new firms is defined as the number of newly registered companies with limited liability per 1,000 working-age people (those between 15-64). Tunisia data missing for 2012.

Home-grown organizations, such as Wamda—a platform offering programs and networks that aims to accelerate entrepreneurship ecosystems—are facilitating the ability of the region's youth to launch their own businesses, and to learn practical skills from entrepreneurs who have already succeeded. Organizations based outside of the Middle East and North Africa, such as the European Investment Bank (EIB), are also beginning to increase their involvement with early-stage companies and accelerators by marrying new forms of technical assistance with local investments.

As the EIB's Jesper Persson, Head of Private Equity – Director for Operations Outside of Europe, notes, "We see existing accelerators working under resource constraints, new networks of business angels emerging, and an underestimated entrepreneurial spirit—particularly with a younger population that is quick to adapt new technologies. We are excited about the new early-stage accelerator programs we are developing because, in a world where new technological solutions can help transcend national and cultural borders, we can essentially find innovative solutions to existing problems and create new markets."

3. Data are as of 2010. United Nations, *World Population Prospects: The 2012 Revision*.
4. See, for example, Christopher M. Schroeder, Startup Rising: The Entrepreneurial Revolution Remaking the Middle East (Palgrave Macmillan: 2013).
5. World Bank.

MENA's Private Equity Cycles—Timing the Wave

Shailesh Dash, Founder and CEO, Al Masah Capital Limited

In the continuous loop of economic and business cycles, the moments of entry and exit of an investment take on greater significance when they are superimposed on the point of the cycle in which the transaction took place. When it comes to timing this intricate balance between opportunity and execution, the Holy Grail for all investors is buying at the cusp of a growth stage and selling right before the consolidation or maturity stage. Experienced investors, having made numerous attempts at this perfect trade, are nearly always aware of the next one—like a surfer looking for the perfect wave. Does this explain why the global giants of the private equity industry are now increasingly pursuing transactions in the MENA region? Is the increasing number of foreign-led deals for regional assets a new trade in the making? Is the Holy Grail in our backyard?

The MENA region's fundamentals certainly offer the perfect backdrop to a lucrative private equity environment. Fuelled by years of prudent reallocations of oil revenue, economic diversification, and the rise of a wealthy consumer class, sectors previously not associated with this region such as healthcare, education, and food and beverage are now becoming economic stars. The evolving regional private equity industry is reflecting this paradigm shift as well; it has gone from focusing primarily on manufacturing to now being more service-oriented. The market's demographics, including a growing middle class and an established upper class with high disposable incomes, presents a compelling investment case, while explosive growth in defensive sectors is an investment manager's dream.

But have we already entered the growth stage of the cycle? For experienced regional private equity fund managers, the previous two important entry points were 2005 when the market was nascent and 2010 after the correction. Asset prices today are certainly much higher than those levels, but on a global scale they remain highly attractive—in some cases multiples still remain in single digits.

The perception that MENA should be classified as an emerging market is changing investors' approaches toward the market. Whilst previously, due to oil wealth, international fund managers primarily viewed the Middle East and North Africa as a source of capital to be deployed outside the region; post 2008-2010, that dynamic changed dramatically. Governments implemented initiatives to diversify their economies away from oil—a process sped up by the Arab Spring—thus setting the stage for greater private sector participation as barriers to entry came down. The final trigger was the regional behemoths—the sovereign wealth funds—which were starting to look more inward. As that large pile of capital got diverted, the region finally caught the attention of international players. Add in the MSCI upgrade for the UAE and Qatar equity markets and the spotlight fell into place.

Yes, the region carries its fair share of risk. It's combustible, always in the news (not always for the right reasons), and characterized by nascent 'modern' governments and emerging social and economic infrastructure. But it has a solid foundation from which to reduce these risks. The Middle East and North Africa remains a largely stable region with its mix of democratic / royalty leadership in line with a culture that is based on tribal, familial sensibilities. It uses its wealth more sensibly now and recognizes deeply the social contract it has with its people. This will fuel the future—not the oil wealth but the recognition that the population is smarter and more demanding. The next generation is not only asking questions, it is also participating through business, education, art, media, entrepreneurship and government. So like any developing environment, this greater accountability leads to greater transparency, greater risk management, greater risk controls and better solutions.

With all the stars aligned at a critical juncture for the region's private equity industry, a key ingredient is now needed to drive the next stage of growth. Private players with sophisticated pools of private capital are going to be the next vanguards for this lucrative point in the cycle. With international managers beginning to realize this in increasing numbers, and regional managers having placed themselves expertly for this trade to come to fruition, the next phase will not only be the most challenging and competitive, but also the most rewarding. The timing of this perfect trade—and the entry and exit points most sought after—is happening right before our eyes.

The Current State of the Market

Private equity fund managers raised nearly US$1.1 billion for MENA-dedicated funds in 2014, while a number of global and pan-African funds that have closed over the prior year will also likely seek to deploy capital in the region. Meanwhile, total disclosed capital invested in the region grew slightly from US$533 million in 2013 to US$586 million in 2014 (see Exhibit 15). Looking forward, the influx of fresh funds from this year's fundraising efforts and evidence of fund managers' ability to return capital will help to build the case for private equity in the Middle East and North Africa, which may attract even greater investor interest in the region.

The Fundraising Landscape

A few trends stand out in the current fundraising environment: the predominance of regional and sub-regional funds; the dominance of a few established fund managers; and, the emergence of alternatives to the traditional GP / LP model.

Unlike regions such as Emerging Asia, where China- and India-dedicated funds account for a significant share of capital raised, LPs prefer to access the Middle East and North Africa through regional and sub-regional vehicles. Baris Gen, Senior Investment Officer, Private Equity Funds – Europe, Middle East & North Africa at International Finance Corporation (IFC) explains this in the context of risk mitigation: "One way to mitigate the issue of political risk is by adopting a regional approach; a fund targeting four to five countries could manage the impact of one country [that is] underperforming." In 2013 and 2014, regional and sub-regional funds accounted for more than 90% of capital raised for the region (see Exhibit 16). The two largest funds raised in 2014 were both for regional vehicles: Gulf Capital's US$750 million Middle East-focused buyout fund GC Equity Partners III and NBK Capital Partners' US$310 million MENA-focused growth capital fund NBK Capital Equity Partners Fund II. With the exception of a handful of country-specific players, private equity investors tend to access some of the region's larger private equity markets, including Egypt and the United Arab Emirates, through pan-MENA, pan-African or global funds.

Country-dedicated funds play an important role in North African markets where regulatory frameworks can make it difficult to raise local capital for regional funds. Central Bank policies in Morocco, for example, prohibit local institutional investors from committing to regional funds, and therefore country-specific vehicles are their most feasible option for allocating to local private equity markets. Perhaps partly as a result, Morocco has attracted the most country-dedicated funds, with US$329 million raised between 2009 and 2014, more than any other individual market. This example illustrates how fund remits can play a large role in what sources of capital are available to fund managers.

The region can be a very difficult environment for first-time fund managers, and it is one where relationships matter. The majority of active fund managers are now on their second or third fund, and since 2012, only two known first-time fund managers have reached

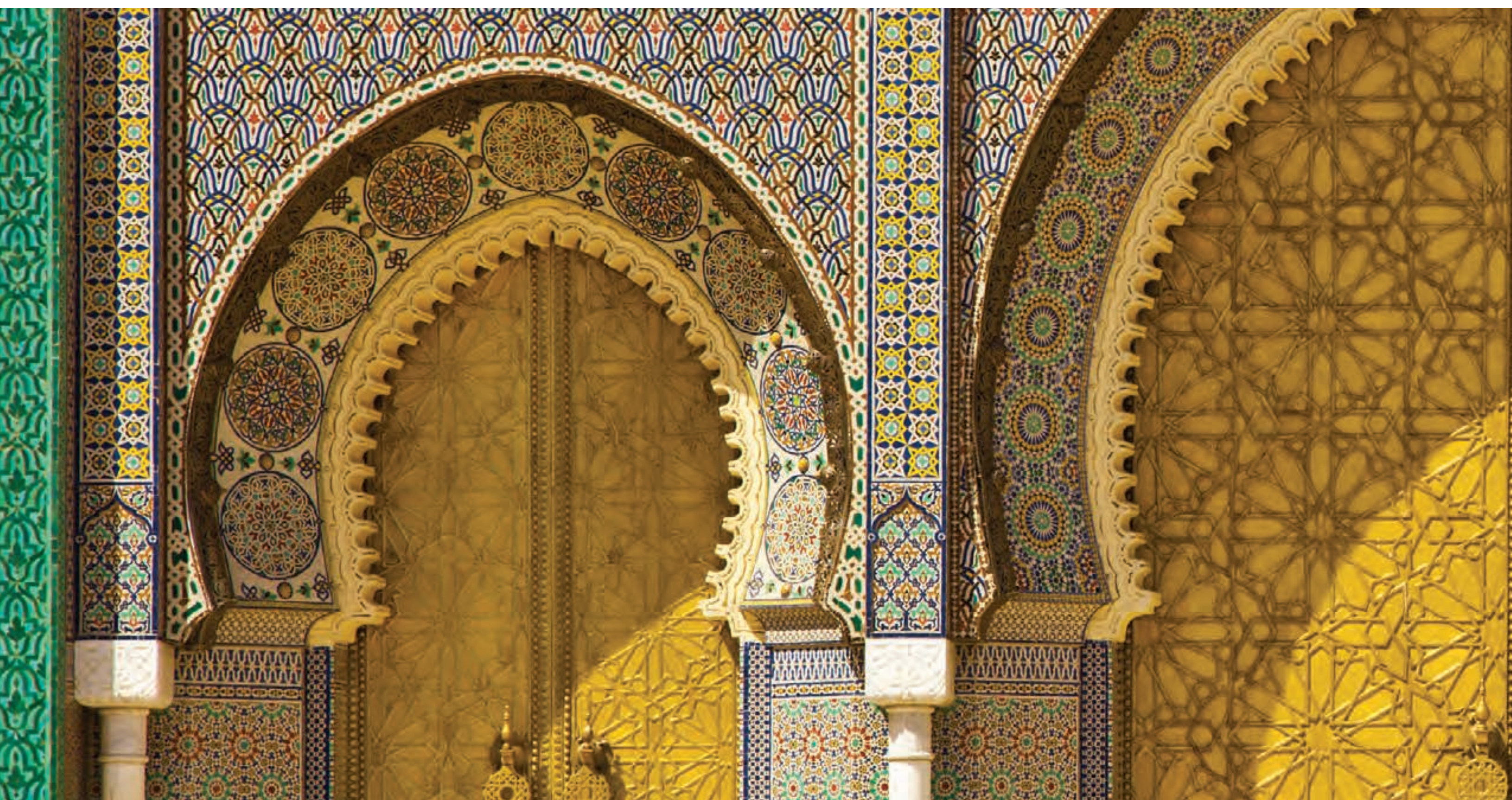
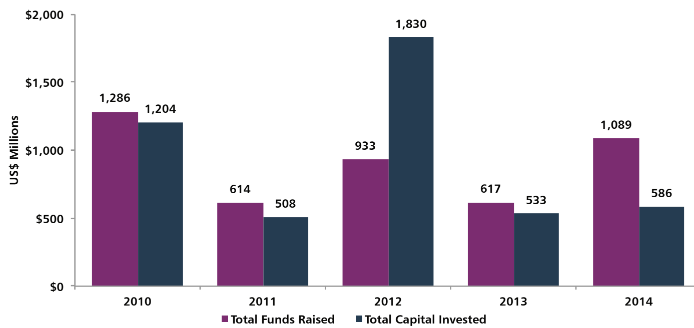
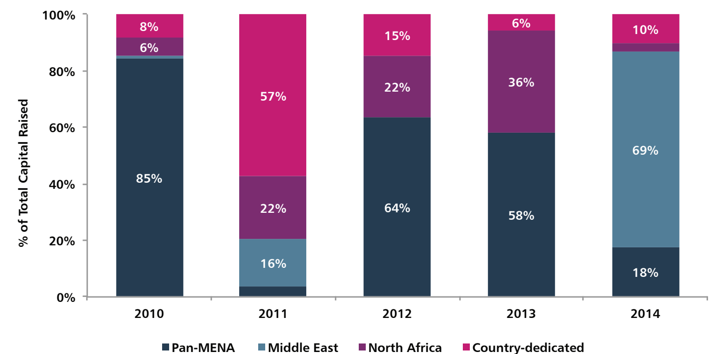


Exhibit 15: MENA Fundraising and Investment, 2010-2014



Source: EMPEA. Data as of March 2015.
Note: Includes disclosed non-traditional private equity vehicles such as co-investment, debt, infrastructure and other platform structures.

Exhibit 16: MENA Fundraising by Geographic Focus, 2010-2014



Source: EMPEA. Data as of March 2015.

a final close, and both were on venture capital vehicles—a subset of the industry that is still in its early stages. This is in contrast to a region like Sub-Saharan Africa where around a third of fund managers holding a close in 2014 were on their first fund. In explaining some of the factors causing this dynamic in the MENA region, Ahmet Tataroglu, Managing Director at NBK Capital Partners notes, "Sourcing transactions, even if you have a strong investment background, is tough. Unlike more developed markets where large investment banks such as Morgan Stanley or Goldman Sachs are feeding your pipeline, in our region you need to find and develop relationships with many local advisors in the various geographies. Additionally, finding reliable information on companies and sectors is challenging, making local knowledge a valuable commodity. These factors lead to a significant barrier of entry for new private equity firms."

LP / GP Dynamics—A Not-So-Traditional Model

EMPEA's statistics understate the amount of activity happening on the ground as they exclude a number of approaches that fall outside of the traditional definition of private equity. Such models have become prevalent in the region in part due to private equity's tumultuous history, which has affected investor preferences—as limited partners in some MENA-focused funds lost capital during the global financial crisis, a number also lost their confidence in private equity's blind-pool structure.

DFI Spotlight

"Private equity in the Middle East and North Africa has not yet demonstrated a proof of concept. The size of the funds in the region has historically affected performance; some funds were too small and therefore not really viable. Then there was the impact of the Arab Spring, which hit both fundraising and fund deployment at a critical time. It may be a function of the nascency of the market, but over time and with experience, investors will want to see fund managers exhibit greater discipline in deploying capital and achieving exits."

–**Baris Gen,** *Senior Investment Officer, Private Equity Funds – Europe, Middle East & North Africa, International Finance Corporation (IFC)*

"One of the challenges in North Africa is that there are only a few well-established general partners in the region. Nevertheless, by partnering with credible local and regional players, the EBRD has managed to support five private equity funds for a total investment of over EUR85 million. Since our first investment in 2012, we have found that the private equity industry is developing and expanding throughout the region. While North Africa has been going through historic political changes, the region remains an economic area with attractive opportunities available to private equity firms with local expertise."

–**Anne Fossemalle,** *Equity Funds Director – European Bank for Reconstruction and Development (EBRD)*

"The European Investment Bank (EIB) is focused on SME and generalist funds, and in my experience, these funds have performed best. In a relative nascent market like North Africa, a generalist approach makes sense from a risk-return perspective as to achieve diversification and to exploit early-mover advantage and / or local knowledge to identify mispriced assets. As the market has developed, however, we have seen more focused strategies materialize.

Family-owned businesses play an important role in the region, and fund managers that can build relationships with local businesses and families can deliver both financial and broader economic returns. In addition, beyond the provision of expansion capital, the GPs can clean up corporate governance and implement enhanced ESG policies, all of which generate added value and make investee companies more attractive acquisition targets.

This is a region that surprises me. One always hears about the entrepreneurial spirit in Nigeria and other Sub-Saharan African countries, but I find much of the same energy in the MENA region. In light of the young demographics, as well as the data on Internet use and penetration, I think there are a lot of interesting opportunities, also for the potential job creation and broader development impact important to the EIB's mission. In spite of all of the risks, we are attracted to the early-stage segment, and it might be the right time to push the market forward."

–**Jesper Persson,** *Head of Private Equity – Director for Operations Outside of Europe, European Investment Bank*

For a number of industry participants, the traditional GP / LP model is not the ideal investment vehicle for the MENA region. As IFC's Baris Gen explains, "Some high net-worth investors from the Gulf prefer deal-by-deal structures, which can make it difficult to raise blind-pool private equity funds if you are relying on this particular funding base." Players in the industry are well-aware of this trend, and in reaction, Gen adds, "Some firms have chosen to adopt a holding company model in order to focus on strategic assets on a long-term basis and in a few key sectors." For example, Al Masah Capital Limited and Qalaa Holdings (formerly Citadel Capital), have adopted alternative strategies to cater to their investors—in Al Masah Capital's case raising capital via corporate platforms and in Qalaa Holdings' case, evolving from a private equity shop to a holding company.

In reference to their strategy, Don Lim, Executive Director of Private Equity at Al Masah Capital Limited, notes, "When AMCL was founded we assessed investor appetite and discovered that potential investors were somewhat averse to a committed, blind-pool fund model, especially after the global financial crisis. Hence we launched our private equity products as holding company structures, in which investors are shareholders. Through this model, there's transparency, governance and controls, and we have seed assets that investors can analyze, visit and price prior to investing."

An additional complicating factor that is challenging the traditional model is the nebulous line that exists in the Middle East and North Africa around the definitions of a limited partner and a general partner. Perhaps more so than any other region in the world, local investors, particularly those based in the Middle East, are used to playing an active role in the deal sourcing and negotiation process. In a market that thrives on small, trusted networks, an investor's access and networks are often frequently leveraged in private equity transactions. And with a growing number of sovereign wealth funds, family offices and high net-worth individuals now investing directly in the region, or building up their in-house capabilities to do so, limited partners are becoming more experienced on the asset class and are sometimes competing against local private equity funds.

As Helmut M. Schuehsler, Chairman and CEO of TVM Capital Healthcare Partners, remarks, "In our environment, there isn't a clear differentiation between the role of a GP and an LP, except for sovereign wealth funds. While this distinction is a cornerstone of the U.S. and European model, here the investors in funds are not 'classic' LPs—they are also operators; they have their own banks, industrial conglomerates that include investment arms, trading companies, manufacturing companies, etc. This blurs the boundaries of what is a fund investment and what is an operating strategy, and how to avoid conflicts of interest and competition down the road, which is not always an easy situation for either party."

The LP Base

With large pools of national savings as well as a concentration of high net-worth individuals and family groups, the Middle East and North Africa constitute a key destination for international fund managers raising capital. When it comes to funds with a mandate focused on the MENA region, with a few notable exceptions, including Gulf Capital, the predominant sources of capital tend to be local limited partners and the development finance institutions (DFIs), which together account for more than 75% of LP commitments to MENA-dedicated funds according to EMPEA's proprietary database, FundLink.

Given their developmental mandate, the DFIs have generally been disinclined to commit to funds oriented toward the Gulf, which exhibits a higher income and economic development profile than other parts of the region, and have opted instead to direct capital to the Levant and North Africa. Indeed, the DFIs have been critical supporters in the development of the private equity industry in the Maghreb, helping to back the growth of some of the leading fund managers in the region (see Exhibit 19). In contrast, commercial investors remain focused on the Middle Eastern opportunity—in part due to preferences for large transactions and deal-by-deal structures over blind pools—further driving a bifurcation in regional fundraising dynamics.

The Local Investor

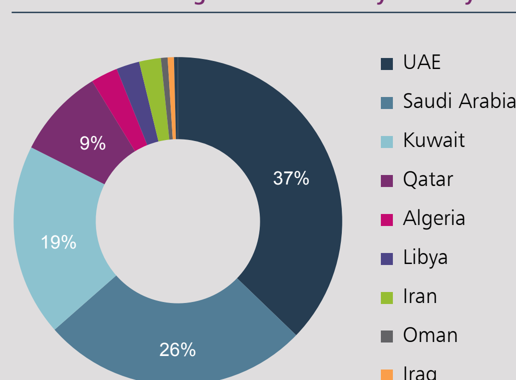
The largest pools of capital in the region reside in sovereign wealth funds (SWFs)—predominantly in the Gulf, but also in the oil-exporting countries of the Maghreb (i.e., Algeria and Libya). The 18 largest SWFs in the region manage nearly US$3 trillion in assets, more than half of which are concentrated in two funds: Abu Dhabi Investment Authority (ADIA) and Saudi Arabian Monetary Agency (SAMA) Foreign Holdings (see Exhibit 17). The main objective of many of these funds is to diversity their wealth outside of the region, while their scale makes it challenging for them to commit capital to private equity vehicles targeting small- and medium-sized enterprises in the region—the ticket sizes can be too small to move the proverbial needle—and therefore many often commit to funds based in the United States and Europe. A closer look at disclosed local LP commitments to MENA-focused funds reveals that financial institutions (i.e., banks, asset managers and insurance companies) and family conglomerates have been key sources of capital for the industry (see Exhibit 18).

Exhibit 17: Largest SWFs in Region

Country	Fund	Assets (US$B)
UAE	Abu Dhabi Investment Authority	773
Saudi Arabia	SAMA Foreign Holdings	757
Kuwait	Kuwait Investment Authority	548
Qatar	Qatar Investment Authority	256
UAE	Abu Dhabi Investment Council	90
Algeria	Revenue Regulation Fund	77
UAE	Investment Corporation of Dubai	70
UAE	International Petroleum Investment Company	68
Libya	Libyan Investment Authority	66
Iran	National Development Fund of Iran	62
UAE	Mubadala Development Company	61
Iraq	Development Fund for Iraq	18
UAE	Emirates Investment Authority	15
Oman	State General Reserve Fund	13
Bahrain	Mumtalakat Holding Company	11
Oman	Oman Investment Fund	6
Saudi Arabia	Public Investment Fund	5
UAE	RAK Investment Authority	1

Source: Sovereign Wealth Fund Institute (SWFI), Accessed February 2015.

Breakdown of Largest SWF Assets by Country



Source: Sovereign Wealth Fund Institute (SWFI), Accessed February 2015.

Exhibit 18: Sampling of Local LPs with Reported Commitments to MENA-focused Funds

AbdulKader Al Muhaidib & Sons Co.	Gulf Finance House (GFH)
Abdullatif Saoud Al Babutain & Bro. Co.	Gulf International Bank (GIB)
Al Ahli Bank	Hayel Saeed Group
Al-Mawarid Bank	Islamic Corporation for the Development of the Private Sector (ICD)
Amen Bank	Islamic Development Bank (IDB)
Arab Investment Bank	Ithmaar Bank
Asseer Company	Kuwait Fund for Arab Economic Development
Bank Audi	Libyan Arab African Investment Group
Bank of Palestine	National Bank of Abu Dhabi
BankMed	National Commercial Bank
Banque de l'Habitat	Olayan Group
Basel Asset Management	Oman Investment & Finance Company (OIFC)
BLOM Invest Bank	Oman MODPF
Caisse de Dépôt et de Gestion du Maroc (CDG)	Phoenicia Group
Commercial Bank of Qatar	Qatar Islamic Bank
Credit Agricole Egypt	QInvest
Credit Libanais Investment Bank	Saada
Crescent Investments	Saudi Arabian General Investment Authority (SAGIA)
Dallah AlBaraka Holding Group	Saudi Health Investment Inc.
EFG Hermes	Savola Group
Egypt's Ministry of Communications IT (CIT)	Social Security Corporation (Jordan)
Emirates National Oil Company	Societe Generale Morocco
Export Development Bank of Egypt (EDBE)	STB Bank (Tunisia)
Fransabank	Telecom Egypt
GAT insurance	Tunisie Leasing
Groupe des Assurances de Tunisie	

Source: EMPEA. As of March 2015.

The Investment Landscape

In 2014, the total value of disclosed capital invested in the region stood at US$586 million, a slight increase from the US$533 million deployed in the prior year. In contrast, capital invested in emerging markets as a whole reached a new high of US$34 billion, of which deals in the MENA region accounted for just 2%. However, it is important to note that approximately 40% of transactions in the Middle East and North Africa have an undisclosed deal size, and therefore these statistics underreport the region's investment story.

Exhibit 19: Disclosed DFI Commitments to MENA-focused Funds

DFI	# of Disclosed Commitments
African Development Bank (AfDB)	3
Belgian Investment Company for Developing Countries (BIO)	5
CDC Group	2
DEG	2
European Bank for Reconstruction and Development (EBRD)	5
European Investment Bank (EIB)	40
European Investment Fund (EIF)	1
International Finance Corporation (IFC)	25
Islamic Corporation for the Development of the Private Sector (ICD)	1
Islamic Development Bank (IDB)	1
Netherlands Development Finance Company (FMO)	5
Overseas Private Investment Corporation (OPIC)	17
PROPARCO	13
Swiss Investment Fund for Emerging Markets (SIFEM)	9

Source: EMPEA. As of March 2015.

Despite the variances, investment activity remains subdued; yet a number of developing trends have the potential to pave the way for an uptick in the region's investment pace, in particular increasing market / sector diversification and new interest from global private equity firms. Additional factors that may promote greater use of private equity as a financing structure in the region include a growing awareness amongst entrepreneurs of the value-addition benefits of the asset class, as well as a greater willingness within the next generation of family-owned businesses—many of which are now passing from the second to third generations—to sell a stake in their companies. AfricInvest's Aziz Mebarek, a Founding Partner of the firm, notes, "The new generation of our region's SMEs have fewer emotional links to the companies their fathers or grandfathers created many years before. They are simply interested in the success of the company, and if there is a strategic interest to sell the business they are not reluctant to do so."

Egypt, Morocco and the United Arab Emirates have historically been the most prominent markets for capital investment (see Exhibit 20). Eight of the MENA region's ten largest deals in the last five years took place in these three markets, and together they have attracted more than 75% of the total capital invested and more than 50% of the total number of deals in the Middle East and North Africa from 2010 to 2014. Nonetheless, private equity investors are finding opportunities in markets across the entire region.

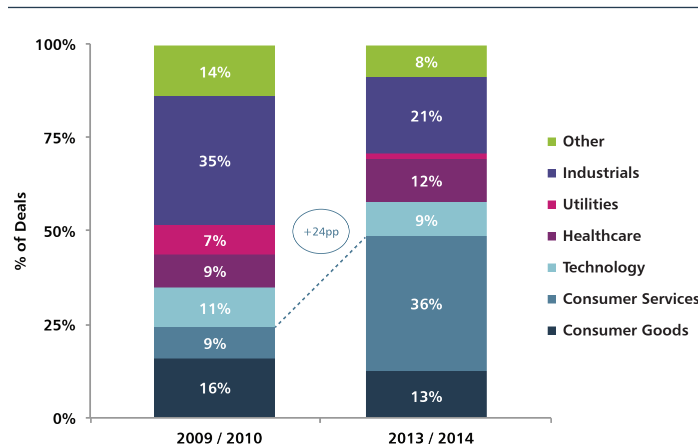
Committed to Building Great Companies that Stand Out in MENA

Exhibit 20: MENA Investment by Country, 2014

	No. of Deals
Iraq	2
Jordan	7
Kuwait	4
Lebanon	6
Oman	1
Palestinian Territories	3
Saudi Arabia	2
United Arab Emirates	20
Middle East Total	**45**
Algeria	2
Egypt	6
Morocco	14
Tunisia	6
North Africa Total	**28**
MENA Total	**73**

Source: EMPEA. Data as of March 2015.

Exhibit 21: MENA Investment by Sector, 2009 / 2010 vs. 2013 / 2014
(Percentage of deals)



Source: EMPEA. Data as of March 2015.

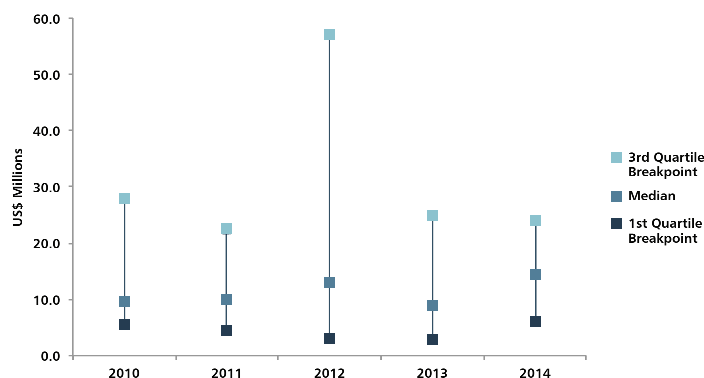
The MENA private equity industry has witnessed a gradual shift away from heavy industries and oil / gas toward consumer-focused businesses. In particular, over the past seven years, private equity investors in the Middle East and North Africa have increasingly targeted the consumer services sector. Between 2009 and 2010, only seven investments were executed in consumer services compared to 26 in 2011 to 2012 and 51 in 2013 to 2014 (see Exhibit 21). Exemplified by NBK Capital Partners' US$23 million investment in Kuwait-based Al Faysal Bakery in 2014 and Development Partners International's US$20 million backing of Morocco-based Université Privée de Marrakech (UPM) the same year, fund managers are looking to capitalize on a growing middle class across both the Middle East and North Africa.

In addition to seizing opportunities, private equity firms have also used sector selection to mitigate risk. In countries impacted more directly by the Arab Spring, fund managers have tended to focus on defensive sectors, such as food products and healthcare. In Egypt, for example, healthcare attracted the most interest in 2014, including The Abraaj Group's investment in Cairo Medical Center and TVM Capital Healthcare Partners' acquisition of a minority stake in Ameco Medical Industries, both publicly listed healthcare companies.

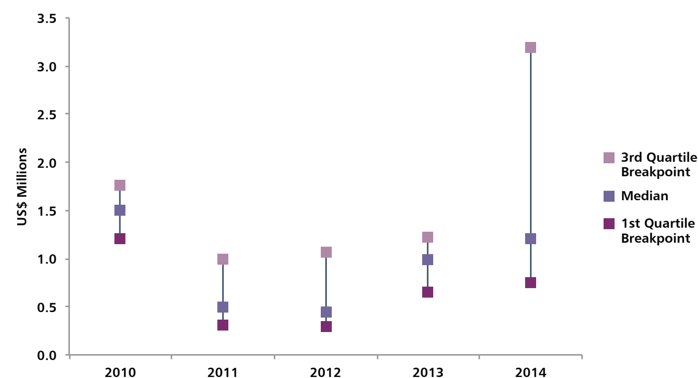
The Typical Investment Transaction

Growth capital investments have historically been the most prevalent transaction type executed in the Middle East and North Africa, followed by buyouts; however, a number of credit, mezzanine, venture capital and infrastructure funds are now coming into the marketplace and providing greater diversity in deal structures. Overall, deal sizes are relatively small with 84% of all transactions that took place in 2014 being valued below US$25 million. However, median disclosed private equity investment amounts (excluding venture capital) have increased over the last year, valued at US$15 million in 2014. The same trend holds true in the venture capital space, where the median disclosed deal size was US$1.2 million in 2014 (see Exhibit 22).

Exhibit 22:
MENA Private Equity Investment by Size, 2010-2014



MENA Venture Capital Investment by Size, 2010-2014



Source: EMPEA. Data as of March 2015.
Note: Excludes investments for which financial details were not disclosed. Private equity includes growth, mezzanine, buyout and PIPE investments. The 1st and 4th quartile ranges have been omitted to enhance readability and remove outliers.

Of course, a closer comparison of deals in the Middle East versus North Africa reveals distinct differences, particularly around transaction size. As Swicorp's Triki comments, "In the GCC, many of the individual opportunities are significantly larger in size than in North Africa. If you take a company operating in a certain sector with a certain market share in Saudi Arabia or the United Arab Emirates and compare it to a similar company in North Africa, you will see a difference in size of a factor of up to 1:2. So a US$20 million investment may get you a majority stake in a leading food and beverage company in Tunisia or Morocco, but will not be sufficient to invest in a similar company in the GCC. The average size of the investments we are making in North Africa is US$10 million to US$15 million, whereas in the GCC we are investing US$60 million to US$80 million per transaction."

The dominance of local family-owned businesses has also been a historical factor in driving small transaction amounts. Nrupaditya Singhdeo, Partner and Chief Financial Officer of Al Masah Capital Limited, points out, "If you look at the regional dynamics, most of the local businesses have been developed by families. When raising capital for their companies, many of these families aim to retain significant control, and ultimately the shareholding that is available is often not large enough to allow investors to complete a transaction that is greater than US$100 million—this is one reason why there are not many larger transactions available in the MENA region." With the shift currently underway within many of these businesses to become more open to outside investors, the possibility for larger deal sizes may increase over the next few years.

Enter the Global Private Equity Firms

The makeup of the fund managers operating in these markets is overwhelmingly local: among the most active investors (excluding venture capital) in 2014 were The Abraaj Group, Al Masah Capital Limited, AfricInvest and Foursan Group, all firms headquartered in the region. However, clear signs are emerging that there is an increase in interest, particularly in Egypt and the Gulf markets, from outside players. Global private equity firm Warburg Pincus executed its first known deal in the region in 2014, acquiring United Arab Emirates-based software company Mercator, while in 2013 global emerging markets investor Actis completed the largest disclosed deal of the year in the region by investing US$102 million in Egypt's Edita Food Industries. Most recently, in April 2015, global firm TPG signed its first MENA-based deal, partnering with The Abraaj Group to invest in Saudi Arabia-based fast food restaurant chain Kudu.

In addition, high-profile auctions involving international players and multinational corporations indicate that the investment landscape may be maturing. In Egypt, The Abraaj Group made headlines in 2014 in a bidding war with Kellogg for Egyptian baked goods and confectionery manufacturer BiscoMisr, while in Saudi Arabia, global private equity firm KKR is reported to be leading the bidding process for local KFC

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Industry Views on Political Risk

"The Arab Spring has provided an impetus for the countries throughout the region to wake up to the fact that they have to grow their economies and create jobs, and therefore need to embrace investment and establish easier ways for their entrepreneurs to set up and develop companies. This is not just about democracy; that's not what people are grasping for—people want to feed their families. If economic opportunities are available, there will be fewer political issues."

–**Rashid Siddiqi,** Managing Partner at NBK Capital Partners

"Political unrest has definitely affected the economies and socio-political structures of many countries in the region, which has impacted the private equity industry, especially in the more hard-hit markets. But even in countries such as the United Arab Emirates, Qatar and Saudi Arabia, where the impact has been less direct, political unrest in the region has spurred more government investment into social infrastructure, which is good for the sectors in which we are active investors, namely healthcare and education."

–**Don Lim,** Executive Director of Private Equity at Al Masah Capital Limited

"In the aftermath of the Arab Spring there have clearly been increased concerns about political risk in North Africa and the possible impact on GDP growth. The more sophisticated investors, however, treat each country on its merits and seek to understand the political and economic developments in each country. Tunisia remains an example of a successful political governance transition, which should help to drive increased economic growth, and we have seen continued strong interest from limited partners in Morocco and Algeria, while Egypt is now also drawing more attention as investors see an increased level of political stability."

–**Andrew Brown,** Chief Investment Officer at Emerging Capital Partners

operator Americana. Transparent bidding processes will hopefully continue to validate growing interest in the country and overall are a positive sign for the region's long-term investment prospects.

Remarking on this trend, AfricInvest's Mebarek observes, "A number of big global players have started moving into our region—and this is good news because they are contributing to raising standards and awareness, and putting pressure on the shoulders of the older, established players in these markets. They're also contributing to a growing secondary market. I believe these trends will push us to be better every day."

Risk Mitigation & Value Creation—The Key Takeaways from the Crisis

The region's fund managers have faced a number of hurdles over the past few years. When industry participants were asked about the most common challenges that they continue to face, many cited a lack of management talent, a challenging legal and regulatory environment and general political instability. However, the lessons learned through the region's recent upheaval have helped firms build the internal capacity and mindset to mitigate against such risks—most importantly by focusing on active value creation initiatives as a way to drive improvements in their portfolio companies.

"Post-financial crisis, Gulf Capital has seen a greater focus on value creation in the region," notes Dr. Karim El Solh, CEO of Gulf Capital. "There has been a huge shift from the early days of minority investments relying on multiple expansion, liquidity and quick flips, to majority buyouts, having a clear exit strategy, creating value and actively managing the exit process." In reference to one of the firm's portfolio companies, he continues, "Looking at Gulf Marine Services (GMS) as an example, at the time of our investment in 2007, the company was a domestic player operating in the United Arab Emirates only. Following our acquisition of a 79% stake, Gulf Capital revamped the company, brought in a completely new management team, expanded the fleet and grew the company from a small local operator to the dominant GCC player. Gulf Capital subsequently expanded it into Europe and the southern North Sea. During the seven year ownership period of Gulf Capital, GMS has increased its net profitability by 1,117%. The investment in GMS culminated in a successful IPO on the London Stock Exchange in early 2014, which resulted in great returns for our investors thanks to the value creation initiatives put in place."

A Region Divided

Although most institutional investors have historically grouped the diverse markets of the Middle East and North Africa into one allocation bucket, the truth remains that these sub-regions are quite distinct and therefore offer both unique opportunities as well as challenges for private equity investors. Such awareness is growing as evidenced by investors now beginning to approach North Africa and the Middle East, or more specifically the GCC, as separate markets.

As Swicorp's Triki explains, "This is a market that was viewed as a single region until recent events with the Arab Spring created a dislocation between the Middle East and North Africa. It is very difficult from our perspective to address both the Middle East and North Africa with the same pools of money. The economies are not the same size, the growth patterns are different, and the risk profiles—whether related to politics or currency—are distinct." In the following two sections of this report, we explore the dynamics of the private equity industry in each of these two sub-regions in greater detail.

"I Believe in the Region"

A Conversation with Mounir Guen, CEO of MVision Private Equity Advisers

Mounir Guen

You work with clients across developed and emerging markets, and you routinely meet with owners of capital around the world. Given your unique perspective, how do you view the MENA region?

The terminologies "MENA" and "MENASA" were created as a marketing exercise to introduce investors to a part of the world that was new to them, and to give it some form of geographic substance. The truth is that the sub-regions comprising the Middle East and North Africa are extremely different.

North Africa, which I would prefer to label as the Maghreb, has a rhythm of its own. While there are exceptions, most of the fundraising activity has been related to DFIs, such as DEG, EBRD, EIF, IFC and a number of other superb development finance institutions, all of which have done excellent work in supporting the establishment of some very good managers. Yet the Maghreb is still very nascent, with its own dynamics in terms of scalability, types of businesses, and the underlying drivers of the market. When combined with geopolitical issues in the region, these factors can inhibit large institutional capital flows into the market.

On the other hand, the activities one sees occurring in the Gulf region are attractive in their own right; investors like to be linked to the Gulf. The GPs are learning very quickly, and they're getting very sophisticated. Interestingly, while the strategies of Gulf-based GPs sometimes touch Egypt—because of the historical links between that country and the Gulf—their investors don't necessarily want them going much further west.

You make an interesting point about the historical connections between the Gulf and Egypt as a potential driver of deal flow. Has this translated into LPs in the Gulf serving as a source of capital for GPs in Egypt as well as the Levant and / or the Maghreb?

I think it's a different story. The family groups from the Gulf countries have been active in the Maghreb and the Levant, and in fact, they are probably one of the main competitors to private equity fund managers in the region. Now, their activity is reliant upon their business plans and their liquidity, but they are—and they have been for as long as I can remember—very sophisticated investors and at a large scale. They have done quite well for themselves.

In addition to family groups, we also see firms embracing platform and investment holding companies, which operate like Business Development Companies to a certain degree. Is the traditional LP-GP structure the right model for the region?

It all depends on how you want to own and drive the value of the investment opportunity. Coming to substantial investors with a US$300 million—or even US$750 million—fund doesn't always click, because these LPs are looking to deploy large amounts of capital. So some GPs have formed alliances with either substantial families or with corporates, and integrated them into their expansion plans.

What must MENA-focused GPs do to stand out when pitching institutional investors?

Having just come off of the experience personally, investors want to ensure alignment between the GP's strategy and its performance capability. They want to make sure that the GP has executed through the full cycle—invested in interesting companies, and invested in them smartly, drove value in the businesses and generated a return profile in line with LPs' expectations. It's extremely important that the full circle has been accomplished. Investors also want to be comfortable with the quality of reporting and see the GP's ability to construct a portfolio that offers diversification from the energy sector.

What is the biggest misperception that LPs have about the broader MENA region?

There is a general lack of familiarity with the region, and this manifests itself in the perception that these economies have a high reliance upon oil and gas; and so it looks like it is a highly concentrated risk. But the governments in this region, and the depth of their plans for economic diversification, have been very forward thinking. This is something people haven't quite grasped yet. But I believe in the region—it is very robust and it offers LPs a number of very interesting investment opportunities.

A Closer Look at the Private Equity Environment in the Middle East

"Following the global financial crisis, working capital financing dried up in Kuwait as a lot of banks became a bit too cautious. However the advantage is that whichever companies were able to survive the financial crisis in spite of the lack of working capital financing, established great cash and liquidity positions with good collection processes—what doesn't kill you makes you stronger. And that's what happened to a lot of companies in Kuwait that survived the crisis; they are now doing well and are very cash rich."

–**Sulaiman Al Rubaie,** Global Capital Management

"Jordan is small compared to a number of other markets in the region, and it also lacks the wealth of countries such as Kuwait, Qatar or the United Arab Emirates. But what Jordan is known for—its strength—is its high-skilled and highly educated people. Regardless of the sector, whether it's information technology, engineering, aviation services, healthcare, or financial services, Jordan does very well in terms of its workforce."

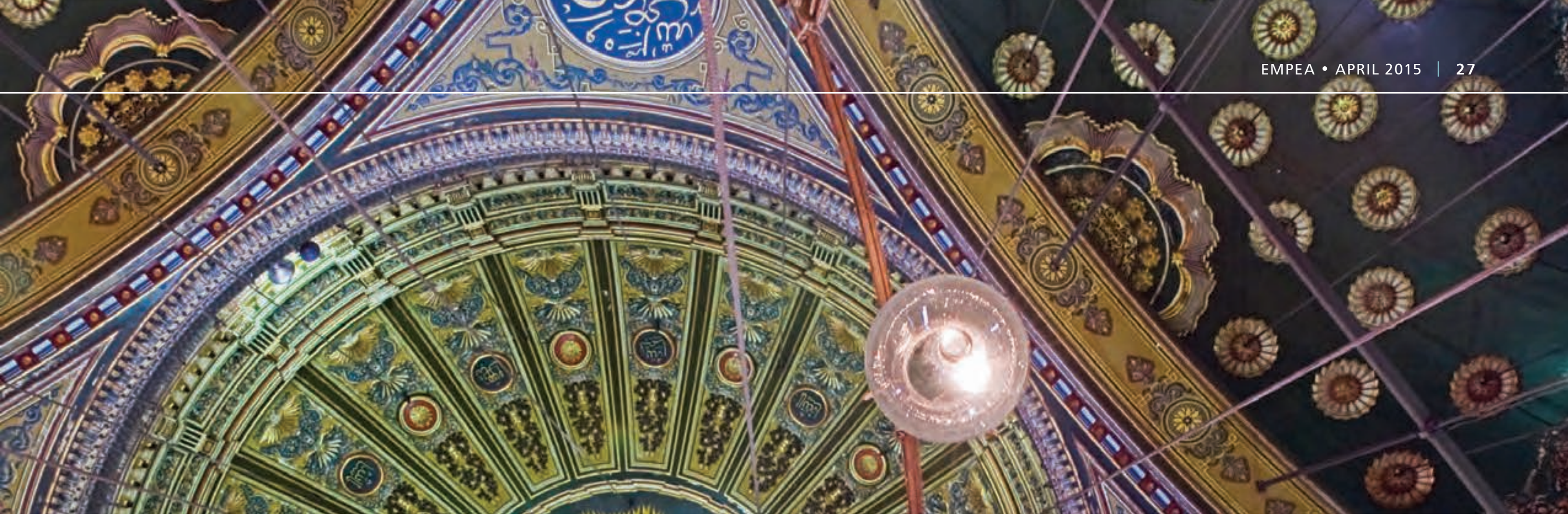
–**Leith Masri,** Foursan Group

"Saudi Arabia is one of the primary markets in which we invest, and we can see that is has been developing—including with recent moves to open up its stock market. I can tell you that doing an investment in Saudi Arabia today is a lot easier than it used to be."

–**Regional private equity investor**

"The UAE ranks highly compared to other countries in the region in terms of ease of doing business. It offers a combination of lifestyle and good, fast-growing opportunities in addition to all the legal and regulatory frameworks that encourage investment and allow 100% ownership in the various free zones. The infrastructure in the UAE, connectivity across the region and the ease of doing business are also important reasons why entrepreneurs and investors want to come and set up shop here."

–**Paul Isaac,** Gulf Capital



The Middle East tends to conjure up images of vast deserts, oil abundance and ancient historical sites ranging from grand mosques to ornate palaces. However, many of these markets also bring to mind sprawling and crowded shopping complexes, an energetic and entrepreneurial youth population and ambitious new infrastructure projects. Growing confidence within the sub-region is palpable, particularly following the Morgan Stanley Capital International (MSCI) upgrade of the United Arab Emirates and Qatar to emerging market status in 2014. And with the selection of Dubai to host Expo 2020—the first time that the World Expo will take place in the MENA region and the first Expo with a majority of attendees anticipated to come from outside the home market—the United Arab Emirates and the rest of its Middle Eastern peers are keen to showcase their potential to global investors.

Of course, the region can't escape its reputation for often being a hotbed for geopolitical flashpoints. Even as this report is being published, tensions between Saudi Arabia and rebels in Yemen are threating to reach a boiling point that could draw Saudi Arabia and a number of other countries into its neighbor's civil war. However, as Al Masah Capital Limited's Ghosal puts it, "Political risk has always been a challenge in the Middle East; the region has been in a state of turmoil for decades, but that hasn't changed anything on the ground. If one comes to the GCC and does his or her own research, and feels the pulse of local businesses, they will see a lot of optimism amongst the entrepreneurs that further money will be invested in the GCC."

Looking Inward

Even though North Africa felt the initial impact of the Arab Spring more heavily, governments across the Middle East viewed the signs of unrest as a wake-up call to implement a number of changes, particularly those focused on creating jobs and meeting the basic needs of its citizens through both hard and soft infrastructure. As just one example, recent budgets released by Saudi Arabia, the United Arab Emirates and Oman highlight a focus on sustainable economic development and employment opportunities for locals, developing the non-oil sector, and increased spending on infrastructure projects, respectively, despite concerns over declining oil prices.

> "Political risk has always been a challenge in the Middle East; the region has been in a state of turmoil for decades, but that hasn't changed anything on the ground. If one comes to the GCC and does his or her own research and feels the pulse of local businesses, they will see a lot of optimism amongst the entrepreneurs that further money will be invested in the GCC.
>
> –Amitava Ghosal
> *Partner at Al Masah Capital Limited*

Local LP Spotlight

"We have been investing in this asset class for more than a decade and have a deep, well-diversified book by geography, strategy, vintage and style. Our experience with private equity has been positive and fruitful.

The MENA region's private equity landscape is fairly nascent compared to other, more developed regions with respect to regulatory structure, the number of managers and service providers, deal flow, transparency, reporting norms and relatively limited exit / secondary options. One of the distinguishing characteristics is deal size.

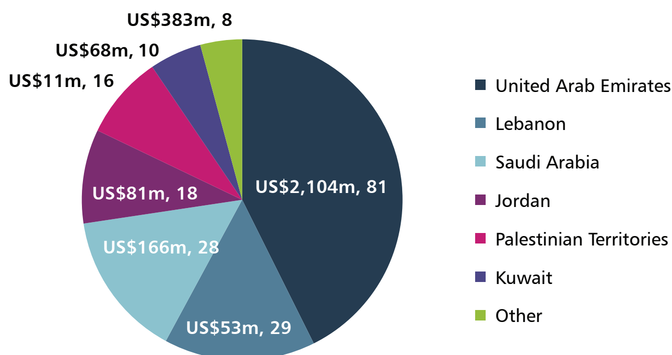
When it comes to evaluating a manager, some of the key criteria we consider are track record, reputation, team stability, ability to generate deal flow and incentive structures that align the team. We like to work with managers that have displayed a good long-term track record over different market cycles, and have large, diversified teams with relevant skill sets. We are also conscious of the fee structure—particularly with respect to an alignment of interest between the GP and investors—and we prefer managers who invest in funds alongside LPs."

Saleh Al-Habsi,
Oman MODPF

With an intense focus on domestic priorities, the GCC countries in particular are reallocating capital back home to develop a number of sectors locally—presenting an opportunity for private equity fund managers, particularly as many governments recognize that they cannot tackle these challenges alone. TVM Capital Healthcare Partners' Schuehsler remarks, "There are a number of countries in the Gulf that have taken an 'investment approach' to building their economies and keeping them politically stable. Key investment areas are infrastructure, healthcare and education. These markets have attracted huge numbers of expats, creating a very unique type of society."

Just as governments across the Middle East are refocusing their attention inward, so too are many of the region's local investors. Historically viewed largely as a source of capital for international private equity funds, particularly those headquartered in the West, the region's sovereign wealth funds and family offices have built up a great deal of experience and expertise with the asset class—even though their exposure has been primarily outside their home boundaries. However, an increasingly favorable macroeconomic environment, positive demographics and the fact that several fund managers in the region now boast established track records have many LPs now considering allocating more capital to local markets.

Exhibit 23: Middle East Investment by Country, 2010-2014
(US$m, No. of deals)



Source: EMPEA. Data as of March 2015.

Exhibit 24: Most Active Dealmakers in the Middle East, 2010-2014

Venture Capital Fund Manager(s)	No. of Deals
Middle East Venture Partners (MEVP)	28
Berytech Fund	5
Sadara Ventures	4

Private Equity Fund Manager(s)	No. of Deals
Al Masah Capital Limited	31
Gulf Capital	10
Siraj Fund Management Company (SFMC)	9
The Abraaj Group, NBK Capital Partners	7

Source: EMPEA. Data as of March 2015.
Note: PE includes growth, buyout, mezzanine and PIPE transactions. List includes firms that focus on platform, deal-by-deal or other alternative strategies.

An Expanding, Consumer-led Investment Opportunity

According to TVM Capital Healthcare Partners' Schuehsler, "Instead of having investors from all over the world tripping over each other, you had a situation in the Middle East during the mid-2000s where there was hardly any competition in the small- to mid-size market segment, and certainly not from international investors. The region was politically considered a 'no-go' zone." Times have certainly changed.

Disclosed private equity investments in the Middle East have more than doubled over the last four years, jumping from 21 investments made in 2010 to 45 in 2014. The United Arab Emirates leads the sub-region in terms of both disclosed transaction value and deal count, with Lebanon and Saudi Arabia trailing as the next most -active markets (see Exhibit 23). Although there are signs of greater interest in a number of these markets from global players—with firms such as The Carlyle Group and Warburg Pincus having made investments over the last few years—the most active deal makers in the region are largely based in-market (see Exhibit 24).

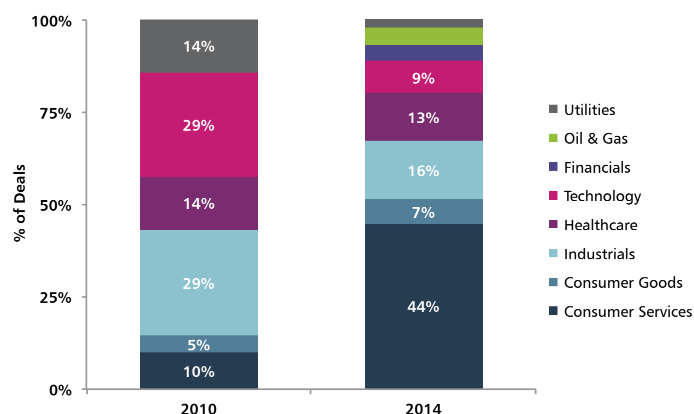
Living in one of the world's fastest-growing populations, the Middle Eastern consumer has driven a significant amount of deal flow for private equity investors. While consumer goods and services represented just 15% of the total number of deals done in the sub-region in 2010, such transactions represented more than 50% of all deals by 2014 (see Exhibit 25). Pointing to the counter

> "There are a number of countries in the Gulf that have taken an "investment approach" to building their economies and keeping them politically stable. Key investment areas are infrastructure, healthcare, and education. These markets have attracted huge numbers of expats, creating a very unique type of society.
>
> –Helmut Schuehsler, *Chairman and CEO of TVM Capital Healthcare Partners*

-intuitive nature of the consumer sector in the Middle East, Sulaiman Al Rubaie, a Partner at Global Capital Management, notes, "Usually retail tends to fail after a financial crisis. However, in our region—aside from Dubai, which did lose some momentum and then recovered well—the retail sector continued on as if nothing had ever happened. The main reason for this is that the governments employ a majority of their citizens; for instance, 90% of Kuwaitis are employed by the government. As nobody was fired, consumer confidence remained high."

In line with the increase in investment activity, fund managers focused on the Middle East have been embracing a variety of stages and strategies. While growth capital transactions and buyouts remain the most predominant investment play, particularly at the large end of the market (see Exhibit 26), *(continued on page 37)*

Exhibit 25: Middle East Investment by Sector, 2010 vs. 2014



Source: EMPEA. Data as of March 2015.

Exhibit 26: Sampling of Largest Investments in the Middle East, 2010-2014

Fund Manager	Company	Country	Sector	Investment Type	Investment Amount (US$m)	Investment Date
CHAMP Private Equity, Lime Rock Partners, Castle Harlan	Shelf Drilling	United Arab Emirates	Oil & Gas Producers	Buyout	855	Nov-12
The Abraaj Group	Network International	United Arab Emirates	Support Services	Buyout	539	Dec-10
Qalaa Holdings (formerly Citadel Capital SAE)	Yemen power project	Yemen	Electricity	Buyout	140	May-10
IFC Asset Management Company (AMC)	Ahli United Bank	Bahrain	Banks	Growth	125	Mar-11
Oaktree Capital Management	Gulmar Offshore	United Arab Emirates	Construction & Materials	Growth	100	Nov-10
Olympus Capital Asia	Aster DM Healthcare	United Arab Emirates	Healthcare Equipment & Services	Growth	100	Jan-12
Kerogen Capital	HKN Holding	Iraq	Oil & Gas Producers	Growth	100	Apr-14
EFG Hermes Private Equity	Damas International	United Arab Emirates	General Retailers	Growth	85	Mar-12
Olympus Capital Asia, India Value Fund Advisors (IVFA)	Aster DM Healthcare	United Arab Emirates	Healthcare Equipment & Services	Growth	60	May-14
NBK Capital Partners	Sanabel Al Salam	Saudi Arabia	Food Producers	Growth	48	Jan-12

Source: EMPEA. Data as of March 2015.

The Rise of Alternative Investment Strategies in the Middle East

Walid Cherif, Managing Director, Head of Gulf Credit Partners, Gulf Capital

For investors looking to add alternative asset exposure in the Middle East, the selection of managers has historically been constrained to a handful of firms with limited track records and unfocused strategies.

In the mid-2000s, when significant appetite for alternative investments in the Middle East first developed, almost no fund managers existed to meet the demand. First-time teams were assembled by various sponsors. As a result, LPs—almost exclusively from within the region—had no track records to evaluate and were forced to choose their investments based on name recognition, such as local banking or commercial groups.

Now, however, LPs can assess the performance of these managers against earlier promises. Exacerbated by the challenges that arose in the aftermath of the global financial crisis, many of these first-time funds failed to source sufficient investment opportunities and simply withered away. Others failed to meet return expectations, either due to overpaying for deals, neglecting to manage relationships with family founders or struggling to secure exits. A select few asset managers in the Middle East were able to deliver on promises of both deployment and returns, and the market has now rationalized around them.

Our region has come a long way in terms of sophistication. Today, the major firms in the region embrace the concept of creating value in companies rather than relying on multiple expansion or financial engineering. At the same time, the financial markets have evolved, allowing for increased complexity in capital structures and a greater variety in financial instruments.

With track records now available to measure, institutional LP interest in the region has grown from across the globe. Gulf Capital, with approximately US$3.3 billion in assets under management, offers a truly diversified platform of investment strategies, across private equity, credit and mezzanine, and real estate. As evidence that investors are looking to gain exposure to multiple alternative asset classes, our Real Estate division partners with co-investors on each of its major development projects; the Private Equity division has welcomed sovereign wealth funds, pension funds and other institutional investors from Asia, Europe, and the United States, as well as from the Middle East; and, the Credit and Mezzanine division has attracted insurance companies, multilateral organizations, sovereign wealth funds and pension funds. We look forward to even greater LP participation in the years to come.

Conditions Ripe for Private Investment in Health to Take Off in the Gulf

Dr. Helmut M. Schuehsler, Chairman and CEO of TVM Capital Healthcare Partners

Capital is waiting in the wings, government policy is conducive and demand is strong and growing—all the conditions are ripe for private investment in the health sector to rise sharply in the Arabian Gulf region. We now need new public-private partnerships to blaze a trail that can be followed in the coming years. As they say, easier said than done, but I believe we are getting very close to lift off.

The opportunity became clear to me personally when I was visiting the region to meet institutional investors in the late 2000s while raising a global fund. Again and again I was told that healthcare-specialist private equity firms should be investing in the Gulf, as the need for modern, high-quality, specialist healthcare was so clear. This was partly driven by acknowledgement that the region has some of the highest incidence of obesity and diabetes in the world.

But demographics are also spurring demand.

For example, the population of the United Arab Emirates (UAE) grew at a compound annual rate of nearly 8 percent in five years to reach 9.2 million in 2012, according to the National Bureau of Statistics. Robust economic growth continues to attract expatriates, while the relatively high birth rate among UAE nationals—at just over 30 per 1,000 in Abu Dhabi, for example, compared to a global average of 19—will also drive population growth. Neighboring Saudi Arabia is not only experiencing rapid population growth, the high birth rate and low death rate is also producing a demographic shift, with half the country's people now under the age of 25. As the population grows and ages, spending on healthcare across the region is expected to climb in the coming years to developing-country levels of as high as 9 percent of gross domestic product (GDP), from only around 3 to 4 percent now.

Governments across the region realize that a leap in healthcare provision—in quantity and quality—is needed, and are welcoming private sector involvement. For example, in Abu Dhabi, investment and development company Mubadala has partnered with Cleveland Clinic to open a state-of-the-art hospital offering 30 medical and surgical specialities. Meanwhile, Dubai has established a dedicated free zone, Dubai Healthcare City, which has attracted over 120 international private operators to the emirate.

Private healthcare provision, especially in specialized areas, brings immediate advantages to local communities and can have a very positive knock-on effect on the public healthcare sector. For example, TVM Capital Healthcare Partners has made five investments in the UAE, including in long-term care provider Cambridge Medical and Rehabilitation Center and ventilated care provider ProVita International Medical Center.

Both of these companies have partnered with top international healthcare providers to offer care that is totally new to the country and has helped save costs. They have allowed patients to be transferred from government hospitals to receive specialist attention, thereby freeing up scarce intensive care unit (ICU) beds, and permitted patients that were being treated abroad to return to their home country and be with their families. Interestingly, by establishing new areas of healthcare in the UAE, these two companies have also become pioneers in the regulatory sphere. Their close collaboration with Abu Dhabi health authorities has resulted in a licensing agreement that can provide a framework for other specialist care providers. Once established, these kinds of healthcare companies will naturally look to expand across the UAE and further afield to neighboring Gulf countries, and on to the Levant and North Africa.

This is no easy feat because there is little regulatory standardization in the UAE, let alone across the region. For example, at present, each of the country's seven emirates has a separate registration and accreditation system for healthcare professionals, making it difficult for doctors and nurses to operate across the country. This makes it challenging for healthcare operations to build the scale and flexibility necessary to provide optimal service. Fortunately, these kinds of issues are being addressed. And governments across the region are increasingly working hand-in-hand with companies to create a conducive operating environment for the private sector.

As a consequence, we are seeing the beginnings of a dramatic transition in the healthcare arena. In the coming years, we can expect the public and private sectors to thrive and provide the world-class service that communities across the region crave.

Spotlight: United Arab Emirates

The United Arab Emirates (UAE) has established itself as a global financial center over the last decade, as well as a gateway for travelers connecting to and transiting among countries in the emerging world. The federation of seven emirates has shaken off the impacts of its financial crisis in 2009 and carries a renewed sense of confidence, perhaps best epitomized by the towering heights of Dubai's Burj Khalifa.

Speaking to the market's growing appeal as a private equity destination, Gulf Capital's Paul Isaac remarks, "The UAE ranks highly compared to other countries in the region in terms of ease of doing business. It offers a combination of lifestyle and good, fast-growing opportunities in addition to all the legal and regulatory frameworks that encourage investment and allow 100% ownership in the various free zones. The infrastructure in the UAE, connectivity across the region and the ease of doing business are also important reasons why entrepreneurs and investors want to come and set up shop here."

In addition to serving as a home for a number of the region's investment houses—including Al Masah Capital Limited, The Abraaj Group, Gulf Capital, TVM Capital Healthcare Partners and Mubadala Infrastructure Partners, to name a few—the country has come to be an investment destination in its own right. From a scant count of six deals in 2009, investment activity has blossomed to 20 deals in each of the last two years, with pure-play private equity accounting for 60% of transactions, and platform, PIPE and deal-by-deal transactions accounting for the balance. Over the last five years, fund managers have committed nearly US$2.1 billion in private capital to UAE-based companies.

While the UAE has accounted for the lion's share, with 46% of deals in the Middle East over the last five years, private equity investors have concentrated their activity primarily on two sectors: consumer services and healthcare. Focusing on opportunities to capture the strong purchasing power of the Emirati consumer, GPs have executed 30 transactions in the consumer services sector, with 20 of those in broadline, specialized, apparel and food retailers, and the balance in the travel and leisure and media segments.

With respect to healthcare, Al Masah Capital Limited has led 18 out of 27 deals in the sector, largely as part of its efforts to build its platform company Healthcare MENA Limited (see Case Study). Yet a number of firms are finding value in this important sector, including TVM Capital Healthcare Partners, which has invested in healthcare providers Cambridge Medical and Rehabilitation Center and Manzil Health Care Services, among others.

Looking ahead, the UAE may very well secure its position as the bellwether for private equity in the broader MENA region. Indeed, as TVM Capital Healthcare Partners' Schuehsler relays, there may be few better places for the private equity professional, "Based on the attractiveness of Dubai and Abu Dhabi as a location in the international competition for the best talent, the UAE has a historic chance to establish itself as the undisputed leader in financial markets in the region. Saudi Arabia will strive to catch up, but the UAE is currently simply the magnet for the educated professionals that ultimately drive the financial market development. Other countries will find it difficult to compete successfully for this position."

Exhibit 27: Sampling of Recent PE Investments in the UAE

Fund Manager	Company	Sector	Investment Type	Investment Amount (US$m)	Investment Date
Al Masah Capital Limited	Al Faris Restaurants LLC (operator of Johnny Rockets)*	Food & Beverage	Buyout	N/A	Feb-15
Middle East Venture Partners (MEVP)	Box & Automation Solutions (BAS)	Financial Services	Venture Capital	2	Jan-15
Samena Capital	Flemingo International	General Retailers	Growth	N/A	Oct-14
Gulf Capital	Destinations of the World	Travel & Leisure	Buyout	N/A	Aug-14
Summit Partners	Namshi	General Retailers	Venture Capital	13	May-14
Warburg Pincus	mercator	Software & Computer Services	Buyout	N/A	Apr-14
Hummingbird Ventures	Souqalmal.com	Media	Venture Capital	1	Jan-14
TVM Capital Healthcare Partners	Cambridge Medical and Rehabilitation Center	Healthcare Equipment & Services	Growth	N/A	Oct-12

Source: EMPEA. Data as of March 2015.
*Operator of perpetual franchise rights in UAE and development rights in Oman.

Spotlight: Saudi Arabia

With an estimated GDP of nearly US$800 billion in 2014, the Kingdom of Saudi Arabia is not only the largest economy in the MENA region, but also one of the 20 largest economies in the world. Saudi households were tagged to more than US$222 billion in consumption expenditures in 2013, a figure greater than that for the Philippines—a country with more than three times as many people.[6]

Befitting the scale of the economy and its population's strong purchasing power, private equity firms increasingly are looking to the Kingdom for deal flow. "Saudi Arabia is a destination market," notes an active investor in the region. "It is quite underinvested, so most funds covering the Middle East are going to dedicate a lot of attention to the country." Though data are hard to come by, between 2010 and 2014, traditional private equity fund managers executed 12 known transactions in Saudi, with nine of those coming between 2012 and 2014.

Nearly 70% of deals have been focused on consumer goods and services, as Saudi consumers attract both global and regional firms' attention. For example, in April 2015, The Abraaj Group and TPG closed on a joint bid for the Riyadh-based restaurant franchise Kudu. In addition, L Capital Asia—a consumer discretionary-focused private equity fund sponsored by the LVMH Group—acquired a stake in the local gourmet chocolates, dates, pastries and fine foods company Bateel in January 2015.

The composition of fund managers deploying capital in Saudi Arabia is somewhat distinct from the dynamic seen in other countries in the region. In addition to global fund managers such as The Abraaj Group, The Carlyle Group, The Rohatyn Group and TPG, a number of regional fund managers—including Investcorp, NBK Capital Partners and Swicorp—are pursuing deals in the country. Some general partners, which aren't looking to invest directly in the country, are seeking to capitalize on Saudi opportunities through the expansion of their portfolio companies. Yet the rise of prominent homegrown players trails other markets in the region—the most notable perhaps being Amwal AlKhaleej and Alkhabeer Capital.

While the majority of known private equity exits have been strategic sales, the Saudi Stock Exchange, Tadawul, is becoming a more viable exit path for private equity investors. Sixteen companies listed an IPO in the GCC region in 2014, raising an aggregate of US$10.8 billion; Saudi Arabia accounted for 38% of the number of IPOs and 63% of the proceeds, largely on the back of National Commercial Bank, which raised US$6 billion.[7]

In 2014, the Saudi Capital Market Authority published draft rules paving the way for Qualified Foreign Financial Institutions to invest in local shares, which could provide even greater liquidity for the local market going forward. According to one investor, this development could also lead to positive externalities, including enhanced transparency, corporate governance and reporting systems.

Despite the preconceptions one might have, Saudi Arabia is diversifying its economy to be less reliant upon the energy sector, and there is a growing number of family-owned and small- and medium-sized enterprises that could benefit from a private equity partner. With its strong consumer base driving demand for a variety of goods and services—including education and healthcare—and the nascent opening of its capital markets to global investors, Saudi Arabia is a market to watch.

Exhibit 28: Sampling of Recent PE Investments in Saudi Arabia

Fund Manager(s)	Company	Sector	Investment Type	Investment Amount (US$m)	Investment Date
Swicorp	BRC Industrial	Construction & Materials	Growth	N/A	Sep-2014
Amwal AlKhaleej	U-mark	General Retailers	Buyout	N/A	Sep-2014
Middle East Venture Partners (MEVP)	Lamsa Kids World	Leisure Goods	Venture Capital	1	Dec-2013
Investcorp	Theeb Rent A Car	Travel & Leisure	Growth	N/A	Sep-2013
NBK Capital Partners	Al Rowad International School	Education	Mezzanine	27	Jan-2013
The Rohatyn Group, Levant Capital	Al Raya for Foodstuff	Food & Drug Retailers	Buyout	N/A	Feb-2012
NBK Capital	Sanabel Al Salam	Food Producers	Growth	48	Jan-2012
The Carlyle Group	Alamar Foods	Restaurants	Growth	N/A	Dec-2011

Source: EMPEA. Data as of March 2015.

6. World Bank.
7. PwC, "Sizeable IPOs during the year bring activity to its strongest levels since the financial crisis," 2 February 2015.

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Enforcement of Rights in the Middle East—A Private Equity Context

Hamish Walton, Partner, and Matthew Showler, Associate, King & Wood Mallesons

Hamish Walton

Matthew Showler

First-time investors in Dubai are immediately dazzled by the polished infrastructure—the airports, the buildings, the hotels and the architecture. Dubai is also rightly regarded as the business hub of the Middle East, and has earned a strong reputation for being tolerant, friendly and the easiest place to do business in the region. However, investors soon realize that they have to negotiate a maze of bureaucracy, Arabic language and cultural requirements, laws protecting the rights of locals, free zones, civil codes and Sharia laws in order to undertake many types of investments. Complex and not always predictable legal systems govern the rights of contracting parties, which impacts the level of deal-making and the robustness of structures used.

Private equity is an emerging force in the region; however, it is still in its formative stages. A handful of players with strong track records of delivering value for investors dominate the industry, which is nowhere near the force it is in the West. There are many reasons for this, one of which is the question over the ability of fund managers to enforce contractual rights typically contained in private equity shareholders' agreements. The legal complexities associated with the region impact deal structures and can make it difficult to get deals done.

The UAE and Saudi Arabia, for example, rank only fair in the World Bank's 2014 Doing Business Indicators on the efficiency of enforcing contractual rights. Cases before local courts can take years to resolve, and as there is no system of binding judicial precedent, there is less predictability in outcomes. At a corporate law level, the execution of transactions such as share transfers must take place before a notary public who has the status of a quasi-court official and must be satisfied with the documents. A share transfer also requires all shareholders to be present, due to statutory pre-emption rights being enshrined in the most common local company legislation.

These issues, along with foreign ownership restrictions, impact the ability to enforce:

- Put options as an exit mechanism for private equity;
- Drag along clauses; and,
- Controlled exits by IPO.

However, the growth of domestic and international arbitration in the region (albeit excluding Saudi Arabia) and recent developments in the Dubai International Financial Centre (DIFC), have provided greater certainty in relation to the enforcement of contractual rights.

Arbitrators should have the power, as the local and DIFC courts do, to award the remedy of specific performance as an alternative to damages if circumstances permit (although this comes with the caveat that an order for specific performance may not be available if damages are an adequate remedy). In theory, arbitrators should also be able to award, for example, that the shareholder on the receiving end of a put option accept the shares and pay the agreed value, or that the minority shareholder honor its obligations and sell its shares to a third-party buyer under a drag along clause. While we are not aware of this type of award having been made in an arbitration seated in the UAE, it is hoped that the local courts would recognize and enforce a domestic award of this nature. Similarly, the United Arab Emirates is a signatory to the New York Convention on the Enforcement of Arbitral Awards ("NYC"), which broadly speaking means that international arbitral awards should in most cases be recognised and enforced by the local (or DIFC) courts, subject only to public policy grounds and the other limited grounds contained within the NYC.

A second option for the enforcement of contractual rights has emerged in the DIFC with the passing of Dubai Law no.16 of 2011. This law allows contracting parties to voluntarily opt in to the jurisdiction of the common law courts of the DIFC for the hearing of contractual disputes. Under the legislative arrangements between the DIFC court and the courts of Dubai, the DIFC court judgment should, in theory, be ratified by the local Dubai courts and thus be capable of being enforced "onshore" in the Emirate of Dubai. The advantages with this are self-evident; parties will be able to rely on a predictable common law, English language system with decisions made by experienced common law judges.

Damages will always be an available remedy for a private equity party that is faced with a shareholder partner failing to honor a commitment such as a share transfer. However if damages are the only remedy that can be sought, this creates great uncertainty for private equity: it is left with a hostile minority interest shareholder and, in the case of a drag along clause that has not been honored, an angry third-party buyer. Such circumstances are, of course, an argument that can be made to the relevant adjudicative body as to why an order for specific performance should be granted.

The recent developments discussed in this article have created a framework under which typical private equity-style rights could in theory be enforced. How that will play out in practice is yet to be seen. As always, in many of these cases, it will require someone to have the courage to go first and "test the waters," an often unpalatable option for most private equity houses with a substantially institutional investor base investing into closed-ended funds.

> "Venture capital in the region is maturing as the landscape has started to transform, and as awareness is increasing amongst both investors and entrepreneurs.
>
> –Walid Hanna, *Managing Partner of Middle East Venture Partners (MEVP)*

(continued from page 30) venture capital strategies are now more frequently seen in the sub-region. Pointing to evidence of an additional evolution within the industry, by 2014, fund managers executed transactions not only through buyout, growth and venture strategies but also across the capital stack, with structures encompassing debt, mezzanine and PIPEs. On the venture capital side, 18 transactions took place in the sub-region in 2014 in a variety of sectors, including technology, media and retail, up from 8 deals in 2010.

In speaking to the rise of venture capital, Middle East Venture Partners' Hanna, observes, "Venture capital in the region is maturing as the landscape has started to transform, and as awareness is increasing amongst both investors and entrepreneurs. In addition, the amount of capital being raised to invest in knowledge-based start-ups is growing; however at the seed stage, there's a lack of liquidity as well as high-quality guidance and mentorship." Leith Masri, Founding Partner of Foursan Group, also points to some of the challenges the venture capital segment faces in the region, stating, "We support venture capital when we can; we helped seed a well-known incubator in Jordan called Oasis 500. However, venture capital around the world is difficult and you need a very comprehensive ecosystem—inclusive of the companies, universities, research centers, financiers, service providers and lawyers—for it to survive. There is a lot of activity happening now in the tech space in the Middle East, but the prevailing ecosystem often lacks key enablers so venture capital players have to overcome additional hurdles to find or create success stories."

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Case Study: **Healthcare MENA Limited**

Healthcare MENA Limited's Story

Healthcare MENA Limited (HML) was founded in 2011 by Al Masah Capital Limited (AMCL), an alternative investment management firm focused on the Middle East, North Africa and Southeast Asia ("MENASEA") region. AMCL's vision for HML was to create a region-wide healthcare network through a buy-and-build strategy, acquiring profitable and non-capital intensive healthcare businesses and integrating them into a unified entity.

As of 31 December 2014, HML owns and operates 21 healthcare facilities in four Gulf Cooperation Council (GCC) cities—Abu Dhabi, Dubai, Sharjah and Kuwait City—and has deals under various stages of completion across the MENASEA region. The HML platform offers an array of services, including hospitals, medical and diagnostic facilities, niche surgical facilities and tertiary care centers, to approximately one million patients per year.

Behind the decision to establish HML lay a relatively untapped opportunity to address an imbalance between demand and supply in the region's healthcare sector. On the demand side, the population in the region was both growing and aging, placing strains on existing healthcare facilities. In the United Arab Emirates (UAE) and Qatar, the population had more than tripled between 2000 and 2013; and looking ahead, the GCC population as a whole is expected to grow more than 20% between 2013 and 2025. Moreover, the World Bank estimated that the number of people aged 65 or older in the MENA region would grow 4.1% per year between 2010 and 2020—faster than any other age segment. Lifestyle-related diseases like hypertension, diabetes, cancer and heart ailments—an outcome of sedentary lifestyle and unhealthy diet—were also increasing demand for HML's portfolio of medical services, as World Health Organization data showed growing numbers of individuals with obesity and diabetes.

In addition, regulatory reforms to expand insurance coverage augmented the underlying fundamentals in the region. For example, Bahrain, Kuwait, Saudi Arabia and parts of the UAE all had adopted some variation of compulsory insurance by the beginning of 2014, and Qatar introduced mandatory health coverage for all expatriates to be phased in by the end of 2015.

On the supply side, healthcare infrastructure in the GCC was underdeveloped compared to North American and European markets. Excluding Qatar, the region's physician density (as of 2011 or the latest date available) was only 15 physicians per 10,000 people, trailing the ratios in developed markets such as the United States (25 in 2011) and Germany (38 in 2011). Amidst fragmented and underserved markets, AMCL believed the opportunity for a scalable platform company was clear.

The Company

هيلث كير مينا ليمتد

Essentials

Company: Healthcare MENA Limited (www.hcmena.com)

HQ country: United Arab Emirates

Investment geography: MENA and Southeast Asia

Sector: Healthcare

Business focus: Owns and operates hospitals, medical and diagnostic centers, niche surgical facilities and other medical facilities

Size: Revenues of US$52.6 million (FY 2014, estimated)

Firm: Al Masah Capital Limited, a MENA and Southeast Asia-focused alternative investment manager (www.almasahcapital.com)

Date of initial investment: March 2011

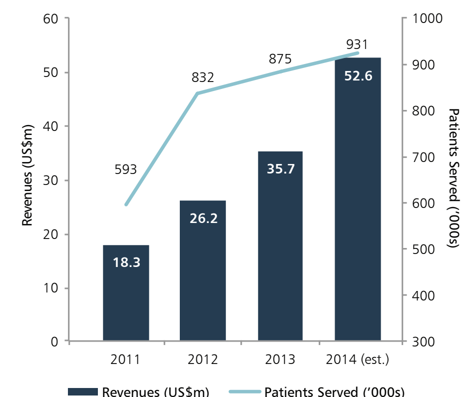
Investment mandate: Total size of US$300 million

The Role Played by Private Equity

AMCL established a buy-and-build strategy for HML that sought to capture and create efficiencies in healthcare delivery throughout the investment cycle—from origination until exit. The platform acquired 21 healthcare assets across the GCC, often at single-digit P/E multiples. Post-acquisition, HML has endeavored to add value through enhanced operational efficiencies, corporate governance, market positioning and margin improvement.

Operational efficiencies and cost synergies were realized in numerous ways—such as consolidation and centralization of multiple departments into a unified shared service. For instance, before becoming integrated into the HML platform, each of the assets that HML acquired had an internal team for processing insurance claims. By bringing insurance processes under a central entity that served all of the group's subsidiaries, HML was able to streamline empanelment with insurance providers and claims processing, thereby reducing the insurance rejection percentage from 6% to 4.5%. In addition, HML upgraded the information technology (IT) systems of a number of diagnostic and multi-specialty centers so that all doctors' rooms were connected to a centralized medical reporting system, increasing efficiencies. ▶

HML's Revenue Growth and Patients Served



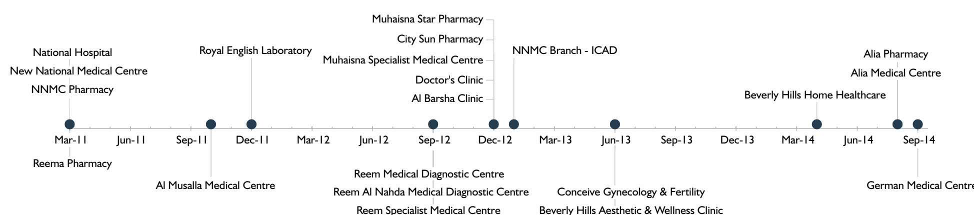
Source: AMCL.

The Company View

"We have been profit-making since inception and we feel that the partnership with AMCL is taking us forward, making us even stronger, and creating immense value."

Ravi Dhir
Chief Executive Officer, Healthcare MENA Limited

HML Aquisition Timeline



▶ The shared service model was particularly effective in calibrating the use of services for geographically proximate subsidiaries. In Abu Dhabi, for example, HML acquired a small hospital consisting of 22 beds and a multi-specialty medical center, creating a hub-and-spoke concept for referrals and medical service delivery. The facilities were able to share laboratory resources for diagnostics, and by adjusting the use of certain technologies (e.g., X-ray and MRI machines) to optimize utilization rates, HML increased profitability.

HML also enhanced internal procedures by adopting managerial best practices and emphasizing corporate governance within its subsidiaries. At four clinics in Dubai, HML upgraded the medical and accounting software, and for three of these, recruited a full-time accountant. Moreover, HML consolidated human resource departments and introduced unified compliance manuals to serve the entire platform.

With respect to market positioning, the subsidiaries benefited from HML's assistance in identifying new specialties in which to upgrade or expand services. In Dubai, for instance, HML acquired a medical clinic with the goal of converting it into a "one stop" family medical center. After leasing another floor in the same building, HML was able to offer more robust medical services, including neurology, cardiology and laser treatments.

Improving the company's margins through cost rationalization and centralization of back office functions was central to HML's strategy. With AMCL's support, HML was able to eliminate redundancies across its platform by consolidating administrative operations and eliminating unnecessary medical equipment. These steps helped HML's platform as a whole to increase utilization rates of diagnostics and specialist systems, and enhance its receivable collection. Moreover, as it achieved scale, HML was able to strengthen its bargaining power with third-party vendors and suppliers, leading to renegotiations that delivered cost savings. The hard efforts bore fruit: in FY 2013, the platform grew its year-on-year revenues by 36%, reaching US$36 million in 2013, and increased its net profit by 55%, from US$4 million in 2012 to US$6.2 million in 2013.

"HML's operating team integrates new assets into the existing platform, examining how the company could benefit through operational efficiencies and improvements."

Sandeep Kumar
Chief Operating Officer, Healthcare MENA Limited

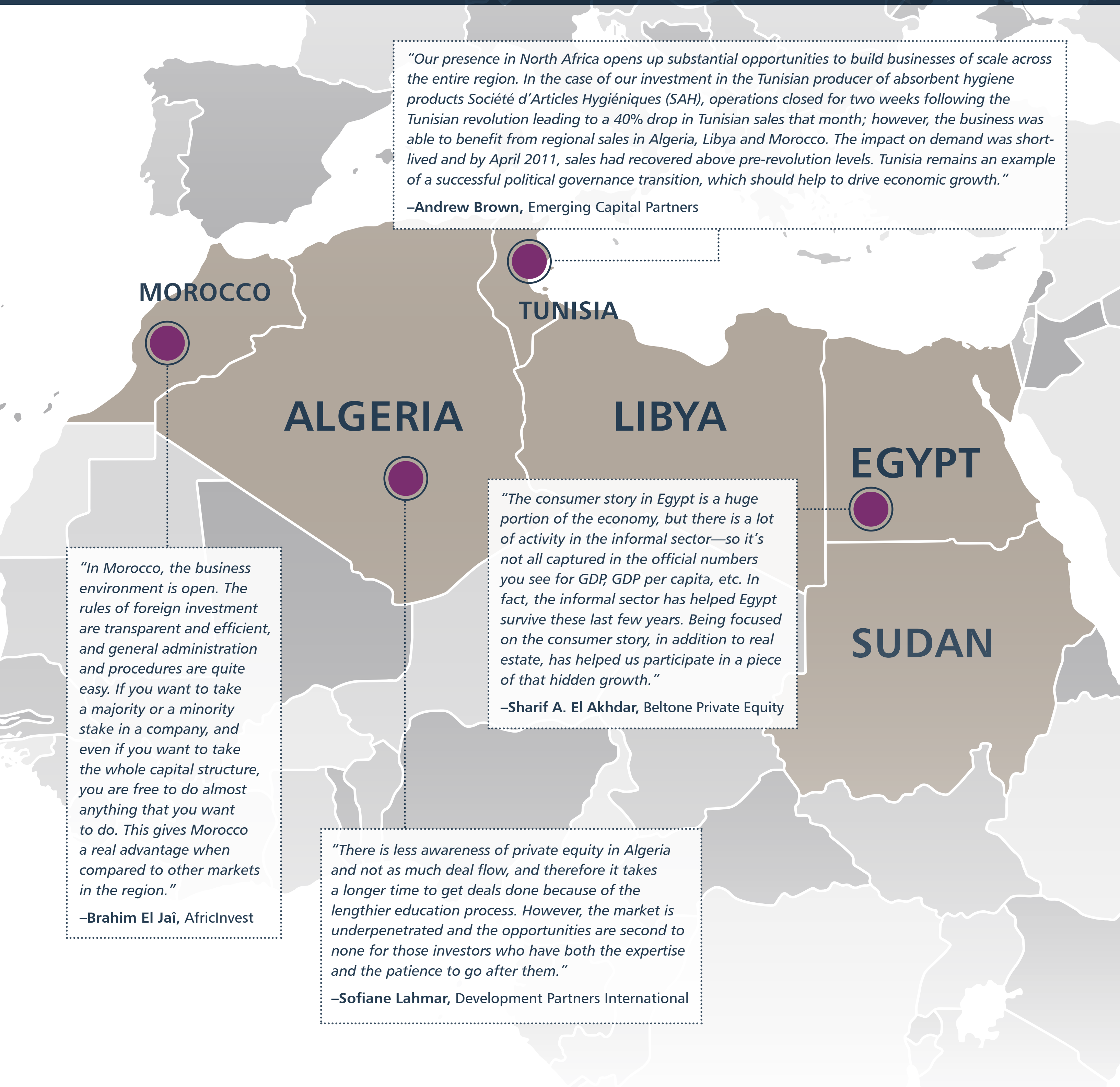
Beyond the Bottom Line

HML aims to provide high-quality and affordable healthcare to all of its patients, and the group has made tangible efforts to increase services to underserved populations. Following HML's acquisition, two subsidiaries purchased vehicles to provide transportation services to patients from nearby labor camps. One of these subsidiaries, The Barsha Clinic, also concluded several contracts with schools to provide part-time doctors and nurses. Another asset, the New National Medical Centre (NNMC) Branch 1, was established to serve a labor camp of more than 2,000 residents in which there were no medical facilities operating within a 10 kilometer radius.

To bring medical care to those in need, the NNMC clinic conducted free medical check-ups in select labor camps, providing this service to more than 500 residents. HML also completed medical check-up programs for schools in the labor camps and conducted several corporate medical camps, serving those employed with specific construction contractors.

Apart from reaching underserved populations with their clinics, HML also spearheaded a number of initiatives to spread awareness about particular causes, including a Breast Cancer Awareness Camp and special promotions on World Heart Day, which attracted an estimated 600 participants.

A Closer Look at the Private Equity Environment in North Africa



"Our presence in North Africa opens up substantial opportunities to build businesses of scale across the entire region. In the case of our investment in the Tunisian producer of absorbent hygiene products Société d'Articles Hygiéniques (SAH), operations closed for two weeks following the Tunisian revolution leading to a 40% drop in Tunisian sales that month; however, the business was able to benefit from regional sales in Algeria, Libya and Morocco. The impact on demand was short-lived and by April 2011, sales had recovered above pre-revolution levels. Tunisia remains an example of a successful political governance transition, which should help to drive economic growth."

–**Andrew Brown,** Emerging Capital Partners

"In Morocco, the business environment is open. The rules of foreign investment are transparent and efficient, and general administration and procedures are quite easy. If you want to take a majority or a minority stake in a company, and even if you want to take the whole capital structure, you are free to do almost anything that you want to do. This gives Morocco a real advantage when compared to other markets in the region."

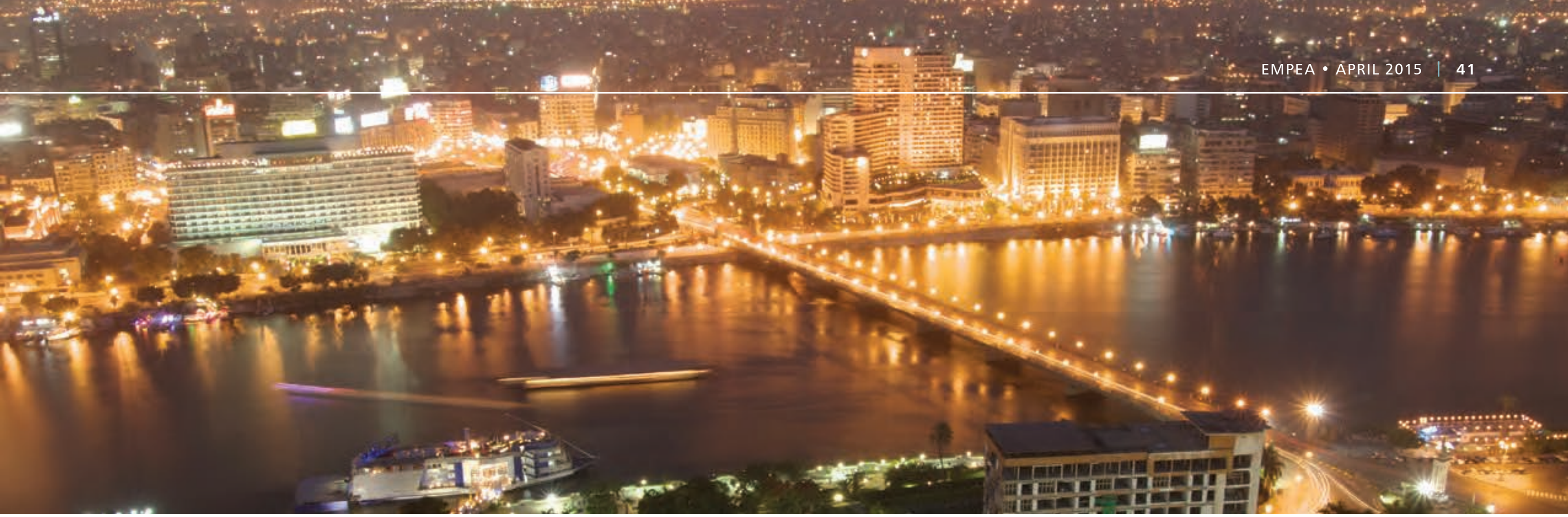
–**Brahim El Jaî,** AfricInvest

"The consumer story in Egypt is a huge portion of the economy, but there is a lot of activity in the informal sector—so it's not all captured in the official numbers you see for GDP, GDP per capita, etc. In fact, the informal sector has helped Egypt survive these last few years. Being focused on the consumer story, in addition to real estate, has helped us participate in a piece of that hidden growth."

–**Sharif A. El Akhdar,** Beltone Private Equity

"There is less awareness of private equity in Algeria and not as much deal flow, and therefore it takes a longer time to get deals done because of the lengthier education process. However, the market is underpenetrated and the opportunities are second to none for those investors who have both the expertise and the patience to go after them."

–**Sofiane Lahmar,** Development Partners International



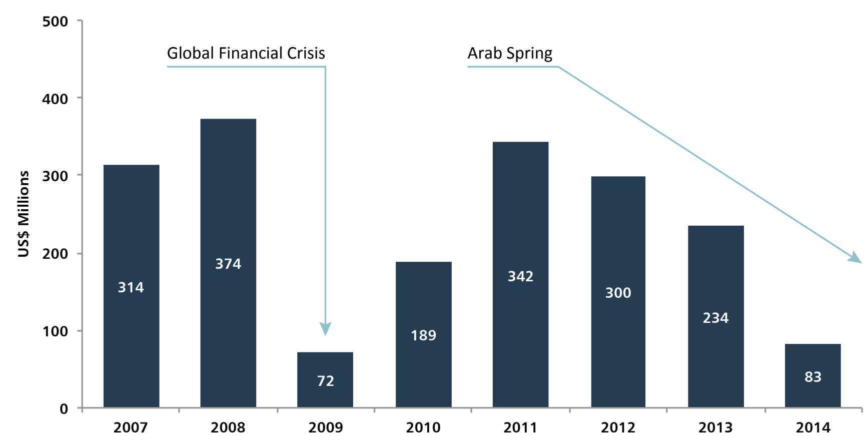
Throughout North Africa's history, the sub-region's geography has played a paramount role in its cultural and economic evolution. To its south, the Sahara desert effectively created a land barrier between North African and Sub-Saharan African societies, limiting North-South trade to a few caravans that traversed trans-Saharan routes to Timbuktu. To the east, the Sinai peninsula facilitated the expansion of Islam in the seventh century and cemented the sub-region's ties with the Middle East—religious, cultural and linguistic commonalities that persist to this day. As a result, images of North Africa, such as the vibrant markets of Marrakesh, the pyramids of Giza and Dahshur, desert escapades in the Sahara and oil wealth in Libya, correspond more closely with its Middle Eastern neighbors than with Sub-Saharan Africa.

North Africa's relationship with the Middle East, particularly the GCC countries, changed dramatically in 2011 as the Arab Spring swept the region and headlines turned to a grassroots movement for representative government and economic opportunity. Yet even as the effects of the Arab Spring reverberated throughout North Africa, private equity investors remained undeterred. While investment totals fell to 18 deals and US$290 million in capital deployed in 2011, fund managers increased investment activity in 2012 to 26 deals across North Africa and investment activity has not dipped to 2011 levels since. Indeed, taking stock of the current landscape, Triki of Swicorp asserts, "We have never been as active and as bullish about investing in North Africa as we are today."

Despite their responsibility for driving news cycles, it's clear that political and economic challenges are only a part of the story of North Africa's evolving private investment landscape. A deeper dive into fundraising dynamics, regional integration and the changing composition of deal flow reveals a colorful mosaic of private equity activity.

Exhibit 29: Fundraising for North Africa suffered from two major shocks

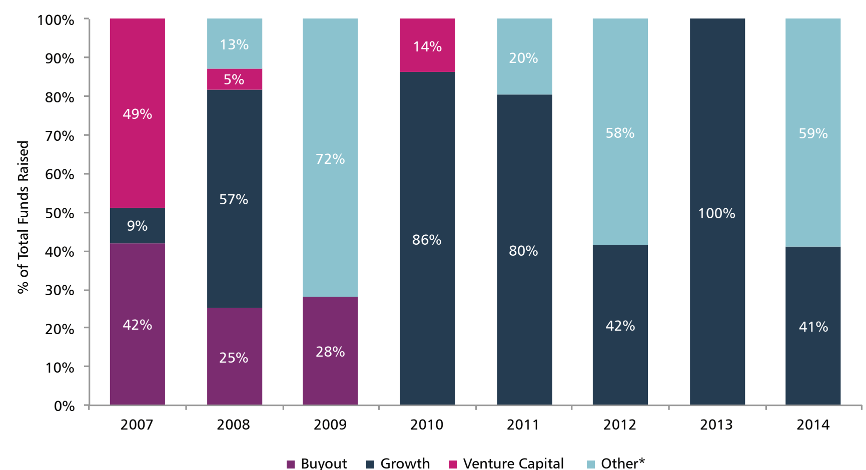
North Africa fundraising, 2007-2014 (US$m)



Source: EMPEA. Data as of March 2015.

Exhibit 30: Growth capital and non-traditional strategies have eclipsed buyout and venture capital funds

North Africa fundraising, 2007-2014 (% of total funds raised)



Source: EMPEA. Data as of March 2015.
Note: Includes non-traditional private equity vehicles such as co-investment, debt, infrastructure and other platform structures.
*Other includes core infrastructure, mezzanine and special situations funds.

> "We have never been as active and as bullish about investing in North Africa as we are today.
>
> –Nabil Triki, *Managing Director, Head of Private Equity at Swicorp*

Accessing the Market – Snapshot of Fundraising Activity
Fundraising in North Africa experienced two inflection points during the last ten years: the global financial crisis and the Arab Spring. When segmented apart from Middle East and pan-regional fundraising, North Africa-dedicated vehicles (including country-specific funds) weathered these storms in a different way. The global financial crisis had a profound impact on fundraising for North Africa vehicles—declining by 81% peak-to-trough (see Exhibit 29)—but capital flows to North Africa funds bounced back between 2009 and 2011, outpacing fundraising for the Middle East. The rebound was short-lived, as a steady decline in fundraising coincided with the unfolding revolutions of the Arab Spring—a trend that has not yet been reversed.

Buried within the aggregate fundraising numbers, however, is a more nuanced picture of evolving fund types and strategies, as growth capital and non-traditional fund structures have eclipsed buyout and venture capital vehicles (see Exhibit 30). To wit, since 2010, growth capital funds have accounted for between 41% and 100% of funds raised for North Africa on an annual basis, while no North African buyout funds have held a close since 2009, and the most recent disclosed venture capital fund close took place in 2010.

These fundraising trends dovetail with the predominance of growth capital deals among private equity investments in North Africa, but they veil the multiplicity of ways in which limited partners can access the North African market. For example, apart from North

The Arab Spring's Impact on the Investment Climate in Egypt and Tunisia

By Nabil Triki, Managing Director, Head of Private Equity, Swicorp

The Arab Spring had a profound effect on the private equity investment landscape in Egypt and Tunisia. Before 2011, healthy companies did not generally look to private equity for expansion capital as they were largely able to finance their growth through debt. However, the revolutions created dislocations in business financing; international investor interest evaporated and the local debt markets tightened as banks were both less healthy themselves and—given uncertainty over the future—more diligent about lending. As a result, companies could either go public (if they had scale) or they could bring in a private capital partner. In this context, the Arab Spring brought both challenges and opportunities to private equity investors.

Post-2011, the primary complications for companies and investors came in the forms of political and currency risk. The uprisings overthrew regimes that had governed without interruption for more than 20 years; and, as the dust settled, companies that had been operating in a very stable environment were now feeling the first-hand effects of volatility—the cost of importing raw materials rose and they no longer could predict what policy reforms the government might introduce. Furthermore, local demand became more fragile for a number of products, while tensions between management and employees rose, particularly in Tunisia, leading to a number of strikes.

In light of the shifting political and economic environments in Egypt and Tunisia, private equity players sharpened their focus on sectors where political and currency risks could be naturally hedged. Swicorp, for example, started looking at defensive sectors, including healthcare, pharmaceuticals and consumer goods companies that produce for the local market. In addition, export-oriented companies generating sales in hard currency, as well as companies that don't rely on imported raw materials, provide natural hedges to local currency risk.

Amidst all of the macroeconomic risks, the underlying investment landscape in Egypt and Tunisia, counterintuitively, has improved following the Arab Spring. As a result of the financing gap, more companies are now willing to bring in private investors. Moreover, many of these businesses have much more rational valuation expectations compared to the pre-2011 era, while private equity firms face a much less competitive environment and benefit from an increasingly proprietary deal flow. As savvy investors know, if you buy well and your companies do well, your investment will outperform. Looking ahead, as the countries stabilize valuations will likely rise; but in their current conditions, these markets give private equity investors reasons to be bullish.

Africa-dedicated vehicles, many global fund managers (i.e., Actis, IFC Asset Management Company), pan-African fund managers (i.e., Development Partners International) and pan-MENA fund managers (i.e., Swicorp) also embrace the sub-region as part of their remits.

Notably, the continuous decline in capital raised for North Africa-focused vehicles since 2011 has coincided with moves by fund managers traditionally focused on the sub-region to embrace a pan-African mandate (i.e., AfricInvest). Moreover, a number of pan-African fund managers, such as Helios Investment Partners and Emerging Capital Partners, offer LPs exposure to these markets. North Africa's growing regional integration has been key to this evolution.

Exhibit 31: Most Active Dealmakers in North Africa, 2010-2014

Venture Capital Fund Manager(s)	No. of Deals
MITC Capital	12
AfricInvest, Ideavelopers	5
Sawari Ventures	2

Private Equity Fund Manager(s)	No. of Deals
AfricInvest	19
The Abraaj Group	12
Mediterrània Capital Partners	9
Actis	6

Note: PE includes growth, buyout, mezzanine and PIPE transactions.
Source: EMPEA. Data as of March 2015.

Regional Integration Driving Private Equity Opportunities

The progress and prospects for regional expansion within North Africa, and toward Sub-Saharan Africa and Europe, are a key component of the private equity opportunity set in North Africa. Notably, the four most active private equity dealmakers in North Africa between 2010 and 2014 all focus on the region at large, and utilize an approach toward regional expansion in many of their portfolio companies (see Exhibit 31). According to Swicorp's Triki, "North Africa is interesting because it is a significant market, and there are lots of interesting plays to be made in sectors like consumer goods, food and beverage, and pharmaceuticals. In some sectors, North Africa can be an interesting base to export to Europe because of the proximity, while it can also be a hub to cover Sub-Saharan Africa because a number of sectors that will grow in the sub-continent in the coming years are ones in which there are already established players in North Africa. Private equity investors are well suited to accompany these companies."

However, some obstacles to intraregional investment in the Maghreb remain. According to Oueslati of AfricInvest, "One of the major hurdles in this region is the political problem that exists between Algeria and Morocco, which is hurting trade within the Maghreb as a whole. For example, Tunisia can trade with (and ship to) Algeria, but if they want to ship to Morocco they have to use the sea—they cannot cross Algeria due to tensions over the Western Sahara. This dynamic is impacting the region and the integration of the North African market." Albert Alsina, CEO and Managing Partner of Mediterrània Capital Partners, also testifies to these market challenges, noting, "The region is missing an estimated 200 to 300 basis points of GDP growth due to the lack of regional governmental cooperation with regard to the free movement of goods, people and capital."

Despite these hurdles, regional integration remains a major driver of opportunity within North Africa. AfricInvest's Oueslati adds, "If you look at our Tunisian portfolio companies, over 30-40% of their turnover is achieved through exports to Algeria and Libya, and even to Sub-Saharan Africa. We are no longer only talking about Tunisia's population of 11 million, but rather a market of 90 million or more now that regional integration is happening—and that is appealing."

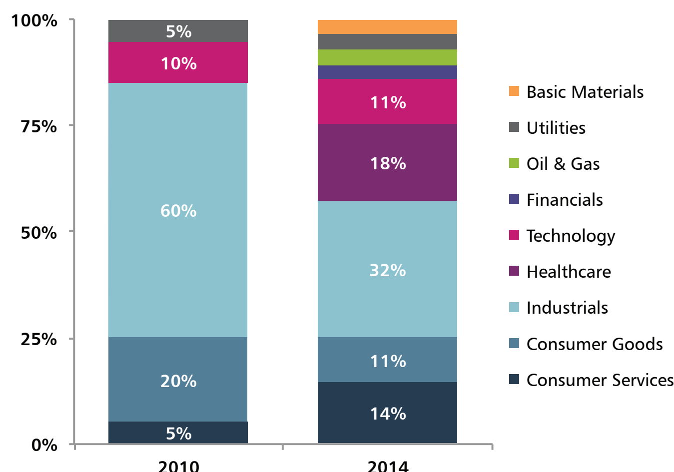
Fund managers have also capitalized on trade relationships with Europe to build up manufacturing and export businesses in North Africa. Andrew Brown, Chief Investment Officer at Emerging Capital Partners, emphasizes this point: "North Africa is characterized by long-standing trade and investment connections with Europe. In particular, there are many North African businesses that benefit from free trade access to Europe, while Morocco has the added advantage of a free trade agreement with the United States of America. This gives rise to a stronger industrial base in North Africa, including a number of export-focused manufacturing businesses."

While regional integration and the expansion of export markets play important roles in identifying investable companies, the opportunities themselves are based on specific sector opportunities in individual markets, primarily in the small- and medium-sized enterprise (SME) segment. Along with a look at how investment by sector has evolved over the last five years, three markets in particular merit further examination: Morocco, Egypt and Tunisia.

"The region is missing an estimated 200 to 300 basis points of GDP growth due to the lack of regional governmental cooperation with regard to the free movement of goods, people and capital.

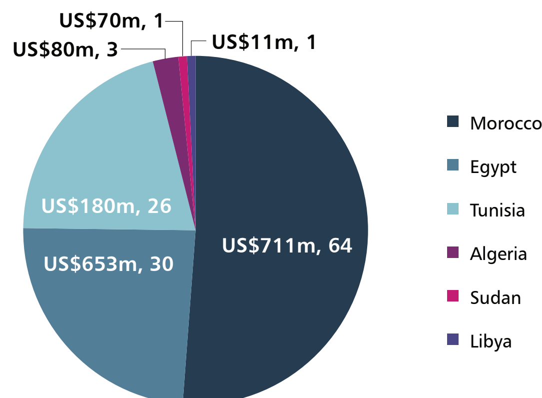
–Albert Alsina
CEO and Managing Partner of Mediterrània Capital Partners

Exhibit 32: North Africa Investment by Sector, 2010 vs. 2014
(Percentage of deals)



Source: EMPEA. Data as of March 2015.

Exhibit 33: North Africa Investment by Country, 2010–2014
(US$m, No. of deals)



Source: EMPEA. Data as of March 2015.

A Closer Look at Deal Flow: Growing Sector Diversification and a Focus on Morocco, Egypt and Tunisia

Private equity in North Africa is predominantly focused on SMEs—not terribly surprising given the predominance of growth capital funds highlighted earlier. Compared to the Gulf, North Africa's relatively smaller markets mean that deal sizes tend to be smaller as well. As AfricInvest's Oueslati remarks, "The type of SMEs that exist in North Africa as compared to the Gulf is quite different. Both are family-owned, but in North Africa the size is smaller, and companies are focusing more on manufacturing and producing, rather than services or representing larger brands as in the Gulf region." Moreover, transactions in North Africa are primarily all equity, with little leverage available from financial institutions.

Over the last five years investors across the sub-region have tapped into new sectors of the economy and diversified their activity. In 2010, 60% of all investments in North Africa went to the industrials sector, compared to just 32% in 2014 (see Exhibit 32). Similarly, three sectors—industrials, consumer goods and technology—attracted 90% of investment activity in 2010, while in 2014 six sectors accounted for 89% of all investments by number. The trend toward increasing sector diversification at the regional level is manifest at the country level as well, particularly in Morocco, Egypt and Tunisia—the primary private equity destinations in North Africa (see Exhibit 33).

Morocco has emerged as the top investment destination for private equity in North Africa, attracting 51% of all deals and 43% of total capital invested in the sub-region between 2010 and 2014. The vast majority of these deals (70%) came in three sectors—the industrials sector (which includes manufacturing and industrial transportation providers), consumer goods and consumer services—and many of them are illustrative of opportunities for companies to take advantage of Moroccan-European trade relations. For example, in 2013, AfricInvest and Mediterrània Capital Partners backed San José López, a freight transportation company operating routes between Spain and Morocco.

> "If you look at our Tunisian portfolio companies, over 30-40% of their turnover is achieved through exports to Algeria and Libya, and even to Sub-Saharan Africa. We are no longer only talking about Tunisia's population of 11 million, but rather a market of 90 million or more now that regional integration is happening—and that is appealing.
>
> –Ziad Oueslati
> *Managing Director and Co-founding Partner, AfricInvest*

Private equity financing for Moroccan companies has involved primarily growth and buyout transactions, but venture capital is also increasingly a financing option for early-stage companies. Driven by MITC Capital—the most active venture capital firm in North Africa since 2010—Moroccan start-ups operating mainly in the consumer services and technology sectors have received 14 investments over the last five years. *(continued on page 49)*

North-Sub Saharan African Links Strengthen with the Help of Private Equity

Ann Wyman, Senior Manager, AfricInvest

Over the past decade, the African continent has been experiencing an increase in inter-regional integration led by both trade and corporate expansion. In particular, many North African companies are now looking beyond their borders to Sub-Saharan Africa for new business opportunities in many sectors, including financial services, telecommunications and technology, and fast moving consumer goods (FMCG).

This trend has become more pronounced as growth prospects in Europe have weakened—prompting North African companies to seek new export markets—while the outlook for many Sub-Saharan economies has become more promising. Cultural and linguistic ties are helping to strengthen the economic links between Francophone countries in North and West Africa, while similarities in legal and business frameworks are easing the expansion of activity.

The coming years are likely to see this trend of North and Sub-Saharan African linkages strengthen even further. In particular, the growing economic ties between the Maghreb countries and the Francophone countries of West Africa are likely to set the example, paving the way for the continued building of corporate and trade relationships in Anglophone West Africa and East Africa.

The growth in North-South economic linkages has been driven in large part by the private sector—and in many cases has been funded by private equity. African company managers are increasingly recognizing opportunities to form regional value chains and achieve economies of scale in production. Indeed, the growth of new regional champions is happening in the absence of a strong contingent of multinational companies, which have thus far neglected the opportunities in Africa, ostensibly assessing the landscape as too bureaucratic and challenging.

Pan-African private equity firms such as AfricInvest have been helping regional champions in North Africa begin to explore and access the markets of Sub-Saharan Africa. This inter-regional expansion is allowing companies to tap into a larger customer base, as well as enabling them to take advantage of private equity firms' past experience, and deep knowledge of Sub-Saharan African markets. Indeed, pan-African private equity firms' connections to markets in other parts of the continent can provide considerable benefit and open new avenues for expansion.

AfricInvest—along with being an example of these linkages itself, having offices and staff across both North and Sub-Saharan Africa—has invested in a number of companies that provide evidence of this rapidly-developing trend.

One Tech Group, a Tunisia-based conglomerate, has expanded its cabling division to include a number of Sub-Saharan African markets. The company has also opened a branch in Côte d'Ivoire called One Tech Africa, which provides IT solutions, network integration and cloud services with the West African region as its main target market.

NCA Rouiba, an Algerian juice company, has recently signed an agreement in Benin to manage five juice plants with a vision to push further into the Sub-Saharan African market.

S2M, a Moroccan leader in the development and implementation of payment solutions, as well as a creator of payment software for credit card applications, has expanded the distribution of its services to eight Sub-Saharan countries, in both West and East Africa.

Omniacom, a Tunisian telecom solutions provider, has opened branches in Libya and Algeria, as well as in the Sub-Saharan African countries of Côte d'Ivoire, Mali, Chad and Cameroon.

Thanks to its cutting edge technology and its highly competitive products, **Siprof**, the Moroccan leader of friction product manufacturing, has developed its Sub-Saharan export activity to now include the target markets of Senegal, Ivory Coast, Cameroon and Madagascar.

Hydrosol Fondations Afrique, a joint venture between two Tunisian companies, but based in Côte d'Ivoire, focuses on geotechnical studies and other services for Sub-Saharan infrastructure projects.

Amimer Energie is an Algerian manufacturer of generators and turnkey power plants that has begun to export to Chad after successfully penetrating the market in Mauritania. The group is now targeting several other Sub-Saharan countries for further sales expansion.

The Tunisian air transport company, **Tunisavia**, which specializes in helicopters and airplanes for the petroleum industry, now counts Sub-Saharan Africa as one of its main revenue sources.

Atelier du Meubles Intérieurs, a Tunisian company, is teaming up with an Ivorian partner and another Tunisian partner to create **Intérieurs Côte d'Ivoire**, a company specialized in the distribution of office furniture.

Companies looking to expanding beyond the North African region are not without challenges—from restrictive foreign exchange regimes to non-transparent and cumbersome border administration to a still-meaningful infrastructure deficit. All of this just serves to underline the need for hands-on visionary private equity managers who, alongside more pro-active governments, can see the financial, developmental and even political benefits of promoting cross-border cooperation. AfricInvest believes that leading by example—through fostering profitable North-South business relationships with its partners, particularly in the SME sector—it can help incentivize and further deepen the mutually beneficial integration of North and Sub-Saharan African markets.

A Spotlight on Private Equity in Egypt

Basel Hussein Roshdy, DBA, MBA, Managing Director and Chief Investment Officer, Nile Capital & IT Ventures, and Dalia Tadros, Executive Director, Egyptian Private Equity Association

Basel Hussein Roshdy

Dalia Tadros

Despite fluctuating political conditions and a challenging economic environment over the past four years—both of which have improved recently—private equity and venture capital firms have not withdrawn from the Egyptian market. On the contrary, we are seeing ongoing investment activity in a diverse array of sectors, increasing ticket sizes, greater volumes of M&A deals being announced and a rise in sizeable investment transactions taking place.

Notwithstanding this momentum, fundraising—at least for the traditional committed fund structure—remains weak when compared to the volume of funds raised for direct investment companies and operational platforms. However, building on news of successful private equity deals, this dynamic is changing as more entrepreneurs and companies have become aware of private equity as a funding source. Attention has also increased tremendously around issues such as corporate governance, compliance, audit and conflicts of interest. More training and professional education programs are being delivered; and a greater focus on SMEs and innovative technologies is resulting in an accelerating number of ventures. The emergence and development of the Egyptian Private Equity Association (EPEA) in 2011 has also resulted in more investor-investee match-making events.

Egypt is the fourth-largest economy in the Middle East and North Africa after Saudi Arabia, Iran and the UAE, and has historically been a leader in private equity in the region. Despite local political unrest taking a toll on activity post-2011, according to EMPEA there are 12 private equity firms headquartered in Egypt and another 13 additional firms that have made at least one investment in the country between 2008 and 2014. There are also 11 funds in the market (as of 31 December 2014) seeking limited partner commitments to potentially invest in Egypt, either solely or as part of a wider geographic focus. This confirms that the interest and appetite for investment in Egypt has always been present; however, it was just put on hold due to political instability. Current key market players in Egypt include Qalaa Holdings (formerly Citadel Capital), The Abraaj Group, Beltone Private Equity, Swicorp and EFG-Hermes Private Equity.

Today, a greater number of sectors are garnering investors' attention. Capitalizing on the growing population and increasing spending patterns of individuals and families, consumer-related sectors (such as FMCG, retail, healthcare and education) and energy (both conventional and renewables) are becoming the most promising sectors for investment.

Infrastructure and sovereign wealth funds—primarily from the GCC, but also from the Far East / Asia—are pursuing large investment transactions in infrastructure and public-private partnerships (PPPs), with a focus on energy, transportation and logistics. However, these investors would be more comfortable with further development of the local capital market for public offerings and issuance, adoption of more sophisticated structured financial products, a clear taxation regime, and enhanced arbitration and disputes resolution, as well as smooth repatriation of foreign currency.

In this regard, we are witnessing significant progress from the government in terms of amending investment laws and regulations, and improving legislation for private equity and venture capital establishments. Moreover, we are seeing positive regulations related to other financial services, such as leasing, factoring, mortgaging, enhancing capital market products and operations, and enforcing the role and responsibility of the Egyptian Financial Supervisory Authority.

In closing, there are numerous reasons to be optimistic about Egypt. The Egyptian economy is benefiting from some mega economic projects (the Suez Canal is just one example of the economy`s fundraising capabilities), and the March 2015 Egypt Economic Development Conference involving the participation of global financial institutions, corporations and institutional investors has brought international attention to Egypt's opportunities, as well as pledges to invest tens of billions of dollars in the country, particularly in the energy sector. A new investment law is on the way, and these positive developments are clearly reflected in better ratings from the rating agencies, as well as the International Monetary Fund. Thus, Egypt is expected to continue its importance as a major private equity destination in the region. With a fast-growing young population of more than 90 million, the opportunities in the market are endless. For more information, please visit our website at www.epea-eg.org.

The Rise of Morocco's Venture Capital and Private Equity Industry

By Françoise De Donder Giraudon, Managing Director, Association Marocaine des Investisseurs en Capital (AMIC), and William Fellows, Managing Principal, Lixia Capsia

Françoise De Donder Giraudon

William Fellows

Although not necessarily well known in English-speaking circles, Morocco has developed a dynamic local venture capital and private equity industry over the last decade—one that is rooted in domestic industry and services, that draws upon local institutional capital and is focused on emerging small- and medium-sized enterprises (SMEs). Indeed, when it comes to private equity, Morocco punches above its weight. For example, with a PE / VC penetration rate of 0.08% of GDP in 2014, Morocco outperformed all countries in the MENA region, and of the 28 PE transactions across North Africa in 2014, 14 were in Morocco. In other words, Moroccan PE activity accounted for 50% of deals despite constituting less than 20% of North Africa's population.

The industry initially had a timid start in the early 1990s with the backing of development finance institutions (such as International Finance Corporation and the European Investment Bank), but it really took off circa 2000 with the emergence of the first generation of independent fund managers. Benefitting from an increasingly liberal investment environment, regulatory reforms and infrastructure investment, the industry expanded dramatically from US$41 million in accumulated assets in 2000 to US$1.6 billion in 2014 (including infrastructure) for investment in the local and Maghrebian markets.

From the 1990s through 2014, Morocco quietly developed into a surprisingly rich ecosystem for venture capital and private equity, with 21 local fund managers executing more than 155 investments in local enterprises throughout this period, according to AMIC's data. The sector and strategy mix of activity is also instructive. The industry has focused on SMEs and innovation, including in key sectors like renewable energy, value-added agribusiness and even the automotive and aeronautics industries. At the same time, for PE players employing regional expansion and consolidation strategies, the Moroccan VC and PE industry has built up a current portfolio of well-governed, modern firms with regional potential and appetite for scale.

AMIC has played an important role in assisting in the development of Morocco's private equity industry, particularly by regularly publishing vetted industry data. In partnership with Grant Thornton, AMIC has collected and published national private equity statistics continuously over the past seven years and is continuing to improve the standards each year to keep them in line with best international standards—and is now doing so in close collaboration with EMPEA.

This effort on data and transparency has been a key factor for the market in understanding the potential and the impact achieved to date, and has helped both government and private players to understand key issues. Private equity has profited from legislative and regulatory reforms that AMIC has helped achieve with the Moroccan government. For example, a reformed regulatory framework, Law 18-14—passed this year—is intended to foster Casablanca as a PE hub. This law establishes an improved, more investor-friendly regulatory environment, with greater flexibility and tax attractiveness, corresponding better to GPs' and LPs' needs. In addition, AMIC has partnered with respected international venture capital and private equity associations, such as the Southern African Venture Capital and Private Equity Association, the Association Française des Investisseurs pour la Croissance, the U.S. National Venture Capital Association and EMPEA, to establish best practice services for its members.

As the industry has matured, Morocco has begun to emerge as a viable operational platform and gateway for African investment. Building on its strategic location between West Africa, North America and Europe, and leveraging its own solid decade of successful market reforms and extensive, international-standard infrastructure expansion, Morocco has established the Casablanca Finance City Authority (CFCA). The CFCA, building on successful financial and business reforms, aims to provide a full-service ecosystem as a hub for business and investment between North and Sub-Saharan Africa. To date, more than 60 international institutions and investors, including the African Development Bank's Africa50 Infrastructure Fund and Wendel Africa, have already chosen Casablanca as their platform for Africa.

Although some challenges remain to be resolved in order to maintain and improve competitiveness, the grassroots fundamentals and focus of Moroccan private equity establish a clear foundation for Casablanca as a hub for Africa. With experienced teams, a regional platform in the CFCA and world-class infrastructure, Casablanca is opening a stable, efficient and convenient door for emerging African opportunities.

Enforcement of Foreign Judgments in North Africa

By Nigel Wellings, Partner, and Claire Clutterham, Senior Associate, Clifford Chance LLP

Nigel Wellings

Claire Clutterham

Legal risk is a critical component of any emerging market private equity investment. As a starting point, most foreign investors would expect to use an internationally recognized law, such as English or New York law, and either the appropriate court (i.e., English; New York), international arbitral rules (e.g., UNCITRAL[8]) or an administering body (e.g., LCIA[9]) as the forum for resolving any disputes on their investment documents. However, it is necessary to carefully consider how a judgment or arbitral award will be enforced before making that decision.

Enforcement

Similar to other emerging markets, enforcement in North Africa can be lengthy and unpredictable. First, there may be procedural issues that need to be addressed, most obviously translating judgments and / or relevant documents into Arabic, and preparing legalized and ratified documentation. The key question, however, is whether the domestic court will enforce a foreign court's judgment or arbitral award without reopening the merits of the case.

Domestic courts typically enforce foreign judgments based on the principle of reciprocity (i.e., where there is a judicial cooperation treaty between the foreign and domestic jurisdiction). For example, in Tunisia, the International Private Law Code specifically notes that enforcement will not be granted where the judgement has been rendered in a jurisdiction that does not respect the principle of reciprocity. Where no relevant treaty exists—as is the case between Egypt and the United Kingdom—it is accordingly difficult to enforce a judgement without the merits of the case being reopened. Furthermore, the domestic law may outline additional specific conditions that must be met, such as that the foreign judgment is not contrary to public policy.

The 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards establishes the position that arbitral awards should be enforced without re-examination of the merits. Those countries that are signatories to the New York Convention—Algeria, Morocco, Egypt and Tunisia in North Africa—should present straight-forward enforcement opportunities. The Convention does allow a domestic court to refuse to enforce the award in certain circumstances, including where the matter is contrary to public policy, if certain procedural requirements are not met and where the defendant was not able to present his defense at the arbitration. These conditions aside, provided the domestic court correctly applies the Convention, the risks of a domestic court in a New York Convention jurisdiction reopening the merits of a case are low.

Other conventions or systems (such as the International Centre for Settlement of Investment Disputes) may also be relevant in certain situations (for example, in that case, disputes between investors and the relevant State). If a court does reopen the merits of the case, the domestic legal process may be very different to the parties' chosen forum giving rise to a wide range of issues such as limited discovery, restricted witness statements, a reduced range of remedies, few specialist judges and an easy appeals process. This adds uncertainty, time and cost: in Egypt, for example, a nine- to twelve-month period for enforcement would not be unusual.

Country	Treaty with U.K. for enforcement of court judgments	New York Convention Arbitral Award
Algeria	Yes	Ratified
Egypt	No	Ratified
Morocco	Yes	Ratified
Tunisia	Yes	Ratified

Mitigants

No right-minded private equity (PE) investor enters into a transaction with the expectation that the investment will lead to court proceedings. Every PE house hopes that they have selected the right partner; built a good relationship and established an investment structure that provides alignment with the founder such that disagreements can be managed long before they become full-blown disputes. However, other mitigants should always be considered such as:

- identifying assets held by the counterparty outside of the region against which to enforce;
- establishing an investment vehicle offshore in a jurisdiction such as Mauritius, the Cayman Islands or the Dubai International Financial Centre, which may have a more familiar legal environment;
- using "self-help" remedies within the contractual arrangements that can be implemented unilaterally by the PE house (such as flooding the board, receiving powers of attorney and taking actions on behalf of the company, or counterparties automatically losing share rights such as dividends or voting if a default occurs);
- avoiding (or being aware of) the provision of statutory rights under local law that might allow a local partner to resist the impact of enforcement of contractual rights (for example, a statutory pre-emption right) as a domestic court is unlikely to compel someone to exercise a right that arises as a matter of law; and,
- using a civil code law, such as French law—this has led to quicker enforcement processes, for example, in Morocco.

8. The United Nations Commission on International Trade Law.
9. The London Court of International Arbitration.

(continued from page 44)
Egypt, the largest economy in North Africa, has historically been a private equity hub in the sub-region; many of the largest disclosed investments in North Africa between 2010 and 2014 took place in Egypt (see Exhibit 34). Like Morocco, Egypt is also home to a nascent start-up ecosystem, with venture capital players like Sawari Ventures and a number of accelerator programs instigating an important dialogue around filling early-stage financing gaps, although growth capital deals continue to account for the majority of deal flow. Unlike Morocco, however, where the opportunity tends to be concentrated in manufacturing and consumer-focused companies, a singular sector theme is not as apparent in Egypt.

More recently, Tunisia has attracted an increasing share of deal activity, up from 15% of the total number of investments in North Africa in 2010 to 21% in 2014, with the opportunity set concentrated in industrials and consumer goods; together, industrials and consumer goods accounted for 65% of all deals during this period. The number of managers investing in Tunisia, however, remains limited; AfricInvest accounted for more than half of all known deals in Tunisia between 2010 and 2014, with the remainder coming from just six other firms.

Looking ahead, private equity can play a critical role in North Africa's private sector development, particularly for the sub-region's SMEs. As Mediterrània's Alsina observes, "The lack of sophisticated products available for the SME segment in general and the lack of risk assessment know-how for the sector are still major handicaps for the development of SMEs, which represent 95% of the economy in the region. Banks are not keeping pace with the accelerated development of the region's SMEs; they are still demanding 110% guarantees for companies' financing needs, they are still requesting asset-based guarantees from owners, and companies are still using overdraft facilities to finance long-term investments. Until banks are able to adjust their policies in order to support SME and mid-cap companies properly, private equity will continue to remain a crucial source of financing."

Exhibit 34: Sampling of Largest Investments in North Africa, 2010-2014

Fund Manager	Company	Country	Sector	Investment Type	Investment Amount (US$m)	Investment Date
Qalaa Holdings (formerly Citadel Capital SAE)	Tanash / Southern Cairo / Alexandria Ports	Egypt	Industrial Transportation	Growth	183	Mar-10
IFC Asset Management Company (AMC)	Banque Centrale Populaire (BCP)	Morocco	Banks	PIPE	150	Sep-12
The Abraaj Group	Saham Finances	Morocco	Nonlife Insurance	Growth	125	Mar-12
Actis	Edita Food Industries	Egypt	Food Producers	Growth	102	Jun-13
InfraMed Management	Egyptian Refining Company	Egypt	Oil & Gas Producers	Growth	100	Jun-12
Actis	Emerging Markets Payments Holdings	Egypt	Support Services	Growth	87	Aug-11
Qalaa Holdings (formerly Citadel Capital SAE)	Sudan power project	Sudan	Electricity	Growth	70	May-10
Gulf Capital	Middle East Glass Manufacturing (MEG)	Egypt	General Industrials	PIPE	52	Sep-14
IFC Asset Management Company (AMC)	Saham Finances	Morocco	Nonlife Insurance	Growth	48	Jan-12
IFC Asset Management Company (AMC)	Amen Bank	Tunisia	Banks	Growth	43	Jan-13

Source: EMPEA. Data as of March 2015.

Case Study: **Sotipapier**

Sotipapier's Story

In 1981, the Hamrouni Group—a Tunisian family-owned business conglomerate with interests in numerous sectors including paint production, chemical manufacturing and real estate—established Sotipapier as a manufacturer of specialist packaging paper products. Intended to diversify the Hamrouni Group's activities, Sotipapier's offerings included Kraft paper, flute paper and Testliner, and it served a client base of paper bag producers and cardboard box producers.

Under the Hamrouni Group, Sotipapier expanded to employ 278 people and produce 38,000 tons of paper products per year by 2011, bringing in revenue of TND47.5 million that year. The company had become a dominant player in the local market, with an estimated 80% share of locally consumed Kraft paper and an estimated 30% share of the flute and Testliner segments. In addition, it had expanded from serving local markets to exporting to other countries in the region, including Algeria and Libya.

Despite its strong market position and profitability, by 2011 Sotipapier was no longer a strategic venture for the Hamrouni Group, and the Hamrouni family had begun to look for possible exit options so that it could focus on its core business lines. However, exiting Sotipapier proved to be difficult, as the shareholder base overlapped with company management. Since Sotipapier was not an independently run entity within the Hamrouni Group, a new management team would have to be brought in—a task that the Group was not willing and able to accomplish on its own.

Discussions between Swicorp and the Hamrouni Group began in 2011 amidst a challenging political, social and economic environment in Tunisia, following the January events that led to the fall of the Ben Ali regime and triggered the "Arab Spring" across the region. Very few foreign—or even local—investors were willing to commit significant capital in this climate. Nevertheless, Swicorp identified that Sotipapier presented a promising investment opportunity for a number of reasons. Sotipapier had developed a defendable market position and had stable margins, strong cash flow generation and low debt. It also had significant growth potential with new industrial clients, such as cement companies, that were expected to launch or expand capacity in Tunisia in the coming years. Since the asset had been considered non-core by the Hamrouni family, investments had been delayed. Swicorp's due diligence investigations, conducted with the help of an independent industry expert, identified several investments that had the potential to improve performance significantly in a relatively short period of time.

Following extensive due diligence, Swicorp offered the Hamrouni Group liquidity through a partial exit. It would acquire 70% of the company with the aim of exiting together once the company's governance and management were strengthened, and the investments realized. Swicorp negotiated the acquisition in May 2012 valuing the company at TND55 million.

The Company

Essentials

Company: Sotipapier (www.sotipapier.com)

Country: Tunisia

Sector: Paper

Business focus: Manufacturer of specialized packaging paper products

Size: Revenues of TND62.8 million (~US$34 million[1]) in 2014

Firm: Swicorp, an investment banking, private equity and asset management firm with a focus on the Middle East and Africa (www.swicorp.com)

Date of investment: May 2012

Investment: TND36 million (~US$23 million[2]), including acquisition debt of TND14 million (~US$9 million) and excluding performance bonus of up to TND2.5 million (~US$1.6 million)

1. Based on USD/TND exchange rate as of 31 December 2014.
2. Based on USD/TND exchange rate at time of investment.

The Role Played by Private Equity

A key component of Swicorp's post-investment strategy was to identify and recruit a new management team. By strengthening the company's leadership, Sotipapier would become more independent from shareholders, laying the groundwork for an eventual exit for both the Hamrouni family and Swicorp. Private equity, in this case, became a tool for strengthening the business as a separate entity from the family group to facilitate its eventual independence. As a part of the investment plan, Swicorp also focused on increasing Sotipapier's production capacity, improving cash flow and working capital, and putting in place an adequate corporate governance structure to prepare the company for an initial public offering.

Among the first value creation activities post-acquisition was recruiting a new Managing Director. Swicorp identified and attracted a CEO candidate with more than 30 years of experience with a multinational paper group, where he had management responsibilities for paper companies around the world, including in France, Spain and China—a profile that is nearly impossible to find locally, as the paper industry is underdeveloped. The Managing Director was brought onboard in August 2012, after which Swicorp also facilitated numerous recruitments, including that of an experienced CFO who joined the company in September 2014. Swicorp also set up a transition committee to help the new leadership team smoothly take over the running of the business. ▶

The Company View

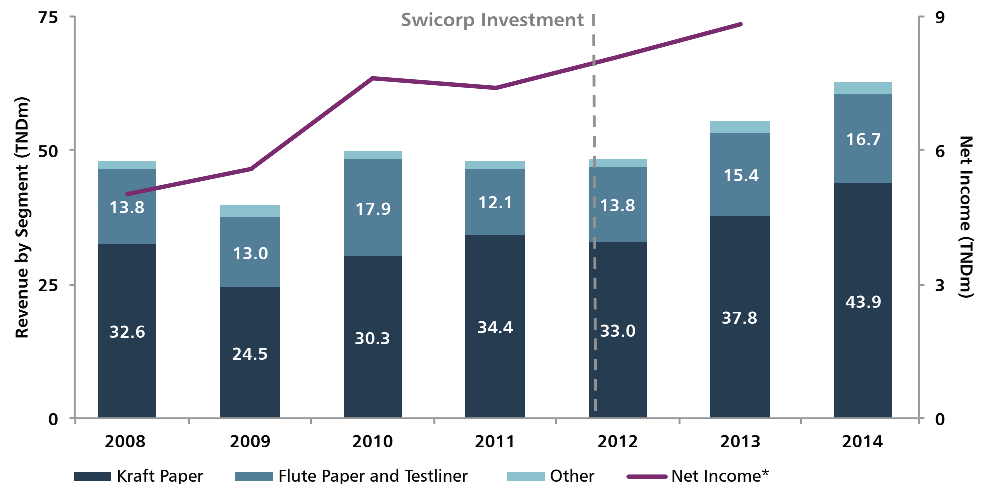
"Swicorp's contribution helped us in improving the company in terms of production, quality and governance, with the objectives of ensuring both the development and the sustainability of the company, and positively contributing to the Tunisian economy."

Philippe Lacoste
CEO of Sotipapier

"This is a typical win-win story where a professional financial investor truly solved a problem for a family business. By partnering with us, they found a way to exit successfully."

Jean-Guillaume Habay
Executive Director, Swicorp

Sotipapier's Financial Performance



*Note: 2014 net income was not publicly available at the time of publication.

▶ Sotipapier also achieved efficiencies on the production side. Swicorp's investment plan involved increasing the company's production by around 20%, while expanding margins and reducing energy costs. When Swicorp acquired the company, production totaled 15,500 tons of Testliner and flute paper, and 22,600 tons of Kraft paper. By 2014, Sotipapier's annual output was 20,600 tons of Testliner and flute paper, and 24,500 tons of Kraft paper, an increase of 33% and 8%, respectively. The results for Sotipapier's top- and bottom-lines were clear: between 2011 and 2013 revenues rose from TND47.8 million to TND55.4 million and net income increased from TND7.4 million to TND8.8 million.

With Swicorp's help, Sotipapier evolved from a family-run business into a company managed independently from shareholders with enhanced corporate governance, including an independent Board and an experienced leadership team. These structural changes paved the way for Sotipapier's initial public offering (IPO) in April 2014. The company's TND120 million valuation (approximately US$76 million) at the time of the IPO was more than 2.2x Swicorp's entry valuation. Forty percent of the company was sold during the IPO following a one-week subscription period, and the offering set a record for the Tunis Stock Exchange as it was 46 times oversubscribed. The stock experienced a 50% price increase in the days after the IPO. Swicorp partially exited during the IPO, selling 40% of its shares and realizing an IRR of over 70% in U.S. dollars and a cash multiple of 3x.

Beyond the Bottom Line

Sotipapier's production plant is located in the town of Belli, where it provides significant employment opportunities to the surrounding community. Not only are these stable jobs, but average annual salaries at Sotipapier are TND12,600 (approximately US$6,500[3]). In comparison, Tunisia's minimum wage is less than TND4,000 (approximately US$2,000). By providing the community with stable employment at fair salaries, Sotipapier contributes to the economic strength of the region.

Following a specific emphasis from Swicorp on safety, Sotipapier's management strived to reduce identified gaps with international safety standards. With Swicorp's support, Sotipapier adopted a detailed safety plan with more than 100 action points to improve safety and overall security at the plant.

Additionally, Sotipapier has made significant efforts to address its environmental footprint.

Swicorp assisted Sotipapier's management in presenting an investment plan to enhance wastewater treatment, which the firm's Board adopted and investments are ongoing. Since Testliner and flute paper are produced exclusively from waste paper, Swicorp brought on a consulting firm to review the firm's waste paper collection processes. This led to a number of recommendations, including a significant increase in the share of waste paper sourced locally—from roughly 50% to more than 80%—resulting in cost reductions and an enhanced environmental record.

3. Based on USD/TND exchange rate as of 26 February 2015.

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Realizing Value: MENA's Private Equity Performance and an Improving Exit Environment

One of the greatest challenges facing the industry in the MENA region is its nascent track record. A limited history, compounded by the operational challenges that arose from both the global financial crisis and the Arab Spring that forced many firms to extend their holding periods, has resulted in a limited number of data points with which to benchmark performance to other markets. While a number of players in the region have graduated to their second or third funds—and in some cases beyond—the overall number of MENA-focused firms, and therefore the number of exits that have taken place, remains small.

According to Sharif A. El Akhdar, a Partner at Egypt-based Beltone Private Equity, "The biggest challenge for exits in this environment over the last three or four years has been the aftermath of the Arab Spring, which has put exit schedules on hold across the board. Today, companies need to return to a pre-revolution timing and restart the exit process. The ones who are lucky can exit today, but there are many others who still have to wait."

In an effort to better understand the performance of global private equity and venture capital-backed companies in the MENA region, investment advisory firm Cambridge Associates analyzed gross portfolio level returns for local companies that received an initial investment between 2008 and 2012 (see Exhibit 35). The results demonstrate that companies at the upper-quartile breakpoint generated a gross IRR of 20.82% with a median gross IRR of 12.36%. The same analysis looking at the metric of total value to paid-in multiples shows a return of 1.99x and 1.40x for companies at the upper-quartile breakpoint and the median level, respectively. This data suggests that despite the challenges, private equity investors in the Middle East and North Africa have been able to demonstrate an ability to create value in their portfolio companies.

Exhibit 35: Gross Portfolio Level Returns for MENA-based Companies, as of 30 September 2014

	Pooled Gross IRR (%)	Upper Quartile (%)	Median (%)	Lower Quartile (%)
Gross IRR (%)	20.03	20.82	12.36	-0.54

	Pooled Gross TVPI	Upper Quartile	Median	Lower Quartile
Total Value to Paid-in Multiple	2.02	1.99	1.40	0.98

Source: Cambridge Associates LLC.
Note: Gross portfolio investment data as of 30 September 2014; companies received initial investment from global private equity and venture capital funds in 2008-2012. Total number of companies included in the analysis is 47.

IPO Markets Creating New Possibilities for Liquidity

Of course, realizing this value depends upon the ability to successfully exit. Of note, the vast majority of stakeholders interviewed for this publication expressed a high degree of confidence in an improving exit environment across the Middle East and North Africa. While industry players largely agree that the most common exit route for the region will remain trade sales via strategic investors—particularly in light of a rise in interest from European multinationals and an increase in intraregional consolidation opportunities—many are encouraged by signs of greater diversity in available exit options.

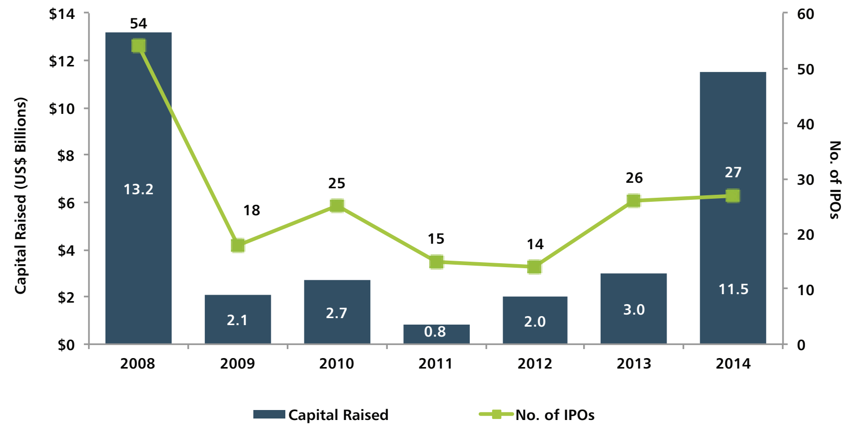
Steadily improving IPO markets, in particular, are providing new possibilities for liquidity—both at home and abroad on international exchanges. Examples of recent private equity-backed IPOs include Emerging Capital Partners' December 2013 exit from Tunisian feminine and baby hygiene products manufacturer Société d'Articles Hygiéniques, following a successful IPO on the Tunis Stock Exchange—the largest listing since its creation, valued at US$163.5 million—as well as Gulf Capital's March 2014 listing of Gulf Marine Services, a United Arab Emirates-based provider of self-propelled, self-elevating accommodation jackup barges, on the London Stock Exchange, raising a reported US$296 million (see Exhibit 37 for a sampling of recent private equity-backed exits).

Despite a heightened degree of market volatility, especially in light of recent swings in oil prices, 2014 was a strong year for IPOs in the Middle East and North Africa (see Exhibit 36). Increased investor confidence and appetite in the region is evident with US$11.5 billion raised versus only US$3 billion in the prior year. Nearly returning to pre-crisis levels, local IPO activity was led by listings that took place in Saudi Arabia and the United Arab Emirates, but they represented a diverse range of sectors including financial services,

real estate, oil and gas, and healthcare. These two markets accounted for 86% of the total transaction value raised in 2014, and just under 50% of activity by number of IPOs.

Despite the fact that the collective market capitalization of the stock exchanges in the Middle East dwarfs the bourses in North Africa, the Moroccan, Tunisian and Egyptian stock exchanges are increasingly viewed as providing greater liquidity and serving as a realistic exit route for private equity investors.[10] "When I first came into this industry ten years ago, it was very hard to view Tunis and Casablanca as viable exit options in terms of IPOs," notes Development Partners International's Lahmar. "But these markets have come a long way, and today provide enough liquidity and size for us to believe we can take some of our companies through an IPO. In addition, Cairo, which has been shut for the last couple of years, is now starting to reopen. In fact, there are a number of IPOs in the pipeline that should happen in 2015."

Exhibit 36: MENA IPO Activity, 2008-2014



Source: Zawya, as reported in MENA IPO Eye, Q4 2014, EY.

This sentiment is echoed by Swicorp's Triki, "If you look at Tunisia, as an example, the IPO market has become increasingly active. Prior to 2011, the stock market was constrained in its development due to the political regime and companies were often afraid to disclose their numbers. Now concerns over transparency are no longer there. In addition, banks that used to be very supportive of the private sector are no longer providing debt. In this new environment, it is easier to list a company, people are not afraid to do so, and they actually need to resort to the capital markets to raise money because the banks are not there."

This is not to suggest that challenges don't continue to persist in terms of greater capital market development across the region.

In reference to Kuwait, Global Capital Management's Al Rubaie notes, "IPOs in our market have been quite difficult. The regulator used to be the stock exchange itself before establishing the Capital Markets Authority [in February 2010], which regulates securities markets. There have been some growing-up and adjustment pains. Unfortunately this created a lot of challenges for companies and effectively weakened their resolve for listings for the time being." Common complaints at a more regional level include time-consuming and inattentive regulatory frameworks, including the need for more consistent and transparent listing requirements, and the continued domination of small retail investors, which has facilitated rules around longer lockup periods (ranging from six months to several years), making it challenging to sell shares in a timely fashion. Nonetheless, greater institutional investor participation may put pressure on local regulators to enact change. *(continued on page 56)*

10. According to data from Zawya, the collective market capitalization of the leading exchanges in Saudi Arabia, Qatar, Abu Dhabi, Kuwait, Dubai, Bahrain and Muscat is approximately US$1.076 trillion, while Egypt, Casablanca and Tunis totals US$131.9 billion, as of 18 December 2014.

It's All About the Fundamentals

Rashid Siddiqi, Managing Director, NBK Capital Partners

For a private equity fund manager in the MENA region, convincing international investors to commit capital remains an uphill battle. Many in the world's leading financial centers view our region as a source of capital rather than a source of returns. Despite growing economies, favorable demographic trends, improving conditions for private sector development, and a maturing private equity industry, we are lagging behind other emerging markets in committed capital.

In our view, by focusing solely on what makes the MENA region distinct, many global LPs are forgoing the opportunity to achieve compelling returns in a fast-growing region that is witnessing steady development across many key sectors. The reality is that despite the clear economic, cultural and regulatory distinctions across emerging market regions, top-quartile GPs in each market, including MENA, exhibit more similarities than differences. As a leading private equity firm in the MENA region, our track record spanning inherently different environments such as Saudi Arabia and Turkey is an indicator that the fundamentals of private equity are market-agnostic and enduring. Our experience also reveals that a relentless focus on mastering these fundamentals is the strongest driver of superior returns for investors.

Let us start by addressing the entry point into any transaction, namely deal origination. In our experience, aligning an organization toward building strong origination capabilities is imperative to constructing a solid portfolio of investments. Rather than having investment professionals source deals between, or in parallel to, managing live transactions, or rely disproportionately on intermediaries, we have built a dedicated and full-fledged origination team to ensure a robust and consistent investment pipeline. We believe that the health of the deal pipeline is directly linked to a GP's ability to deploy capital effectively over the long-term, thus avoiding the natural pressure to invest for the sake of investing. More specifically, for a maturing market such as MENA, this approach allows for a deeper level of cooperation with intermediaries and business owners, resulting in a larger amount of investable deals brought to the table.

Moving to deal execution, most GPs agree with the tagline that avoiding overpriced transactions is a prerequisite for superior returns. While we surely concur, we believe that putting this principle to work is more intricate than many think, as it requires a relentless focus on intrinsic value. Rather than making mechanical investment decisions based on comparable multiples, the challenge lies in determining the intrinsic value band of a given investment, defining the shortest path to value creation, and making informed pricing and structuring decisions accordingly. This is more pronounced in a developing market where comparables are limited or non-existent.

An investment mindset centered on intrinsic value does not emerge overnight and is not simply a matter of choice. Rather, it is the fruit of a disciplined and well-honed process that requires an effective interplay between in-house sector expertise developed through on-the-ground market experience, and a forward-looking and thoughtful approach to due diligence. By taking this approach, we are able not only to stress test our investment thesis, but also to develop a deeper understanding of the path to outperformance as well as the downside risks involved. As a result, investment convictions are crystallized and a heightened sense of what price to pay and how to unlock value is reached.

That said, we believe that favorable entry pricing can never be a substitute for the right transaction structure, a solid package of shareholder rights and legal structuring that ensures investor protection and contractual enforceability. In fact, constructing a transaction structure that effectively aligns all shareholders and management is vital, particularly in the MENA region where full buyouts are less common and where successful transactions generally hinge on ongoing collaboration among buyers, sellers and management throughout the investment period. Furthermore, supplementing the transaction structure with a prudent package of shareholder rights that reflect investment convictions—specifically management, exit and corporate governance rights—is necessary to ensure swift execution and a clear path to realization.

Lastly, we arrive at the central topic of portfolio management. While most GPs would conveniently consider themselves active portfolio managers, a few have defined a clear and consistent portfolio management framework. As owners, GPs have to realize that their role goes well beyond disciplined performance reporting. Put simply, their responsibility begins where their partners' and management's core capabilities end. This is particularly relevant in a region that lacks a deep talent pool across many disciplines. In addition, GPs should recognize that they bring to the table a unique set of investment and financial skills that many companies lack, particularly in emerging markets. In our case, leveraging this skillset has enabled us to drive high-impact financial initiatives such as capital structure optimization, development of financing relationships and execution of bolt-on acquisitions, which have a substantial effect on returns.

Having completed over 20 transactions in the MENA region with 10 successful exits to date, we have witnessed firsthand the transformational impact of active portfolio management. Whether helping a car leasing company to nearly triple its fleet, recruiting the senior management team for a leading confectionery retailer, or helping a consumer finance business enhance its systems, risk controls and credit processes, the effect on our portfolio companies has been profound.

As global LPs consider capital allocation to the MENA region, a focus on discerning and understanding the track record of the region's top-performing GPs will highlight that such GPs exhibit striking similarities to their successful counterparts in other markets. To those of us that strive to master the critical areas of investment cycles, it's clear that it's all about the fundamentals.

(continued from page 54)

A Developing Secondaries Market

Private equity participants are also taking note of the beginning murmurs of a developing secondaries market as a number of global players consider opportunities in the Middle East and North Africa—a trend that is relatively new for the region. While concerns over political risk, as well as a limited number of investment opportunities in the upper-middle to larger segment of the market, remain key hurdles, interest in screening for deal flow has picked up, particularly in some of the Middle Eastern markets where a significant number of companies have achieved a scale warranting the attention of large private equity firms. With many local fund managers that invested between 2006 and 2010 now looking to exit, the number of potential opportunities available for secondaries is poised to grow.

The recent struggles experienced by private equity firms in the region have actually served as source of attractiveness for potential private equity investors; as assets within portfolio companies have taken longer to recover within a fixed private equity lifecycle, new partners have the ability to see where additional value can be created to help a company reach their next stage of development. Beltone's El Akhdar explains, "Typically, as a private equity shop, you have to leave something on the table when you exit. In other words, you create value, and then you sell the company to someone else who can take it to the next level. But if you are not able to exit, you have to jump into the next cycle and take that ride on your own over the next four to five years, and we experienced this with one of our portfolio companies." The beginning of a secondary market may provide an increasingly viable alternative.

Exhibit 37: Sampling of Recent Exits and PE-backed IPOs in the MENA Region

Fund Manager(s)	Company	Country	Sector	Year(s) of Investment	Capital Invested (US$m)	Transaction Date	Exit and Return Detail
Actis	Commercial International Bank (CIB)	Egypt	Banks	2009	244	Mar-14, May-14	Share sale on Egyptian Exchange of 2.6% stake raised EGP816m (US$117m) in March; additional share sale to Fairfax Financial Holding of 6.5% stake in May
EFG Hermes Private Equity	Damas International	United Arab Emirates	Retail	2012	85	Mar-14	Strategic sale of 19% stake to Mannai Corporation for US$150m
Emerging Capital Partners (ECP)	Société d'Articles Hygiéniques (SAH)	Tunisia	Industrials & Manufacturing	2008	N/A	Dec-13	IPO on Tunis Stock Exchange; ECP's investment delivered a reported cash multiple of 2.4x
Growthgate Capital Corporation	Able Logistics Group	United Arab Emirates	Transportation Services	2007	N/A	Dec-14	Strategic sale of 70% stake to Kerry Freight Services for US$32m; reported return of 3x on initial investment
Gulf Capital	Gulf Marine Services	United Arab Emirates	Oil Equipment, Services & Distribution	2007	62	Mar-14	IPO on London Stock Exchange raised GBP179m (US$298m); Gulf Capital's shareholding reduced from 80% to 50%
Havenvest Private Equity Middle East	Byrne Investments Saudi Arabia	Saudi Arabia	Rental & Leasing Services	N/A	N/A	Mar-14	Strategic sale to Hanco for AED600m (US$163m)
Mediterrània Capital Partners	Biopharm	Algeria	Pharmaceuticals & Biotechnology	2013	N/A	Jan-14	Partial exit via secondary sale; delivered a reported gross multiple of 2.6x
Middle East Venture Partners (MEVP)	Shahiya.com	Lebanon	General Retailers	2012	0.5	Jan-15	Strategic sale to Cookpad as part of acquisition for total transaction value of US$13.5m; delivered a reported cash-on-cash multiple of 6x
NBK Capital Partners	Nayifat Installment Company	Saudi Arabia	Financial Services	2008	26	Jun-14	Strategic sale of 38% stake to Falcom Financial Services
Swicorp	Sotipapier	Tunisia	Forestry & Paper	2012	23	Mar-14	IPO on Tunis Stock Exchange of 40% of company's shares; offering reportedly oversubscribed nearly 10x
The Abraaj Group	Moulin d'Or	Tunisia	Food Producers	2012	N/A	Dec-14	Strategic sale of 30% stake to Supreme Group for TND70m (US$38m)
The Carlyle Group	General Lighting Company (GLC)	Saudi Arabia	Construction & Materials	2010	N/A	Mar-14	Strategic sale to Royal Philips as part of Royal Philips acquisition of 51% stake for total transaction value of US$235m

Source: EMPEA. Data as of March 2015.

Conclusion

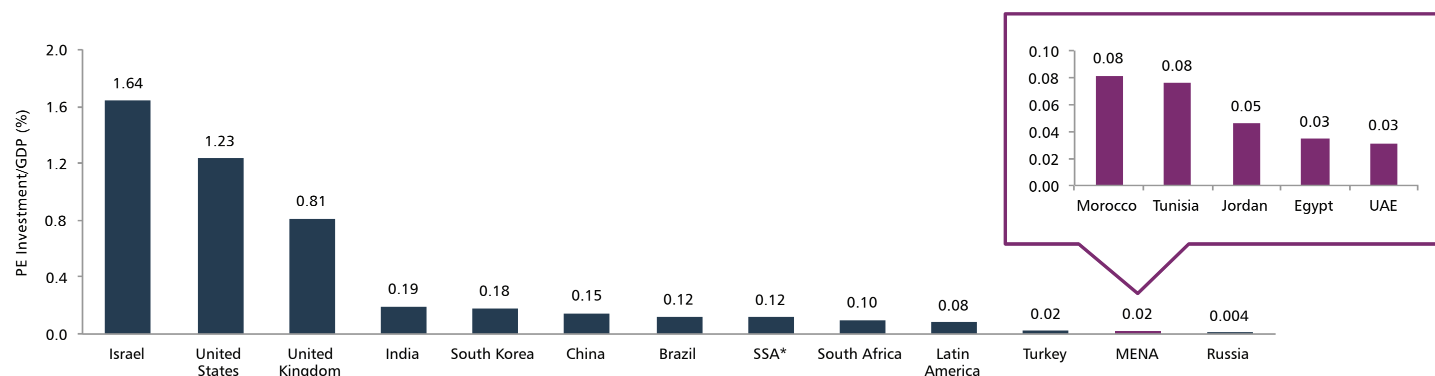
The private equity industry in the Middle East and North Africa has faced a succession of setbacks over the last 15 years—and even as this report goes to press, some thorny geopolitical issues are creating new uncertainties. However, the current roster of firms active in the region consists of seasoned professionals who have negotiated previous waves of political and economic volatility, and created value in the process. Despite the industry's small size, reported deal performance on both a gross IRR and cash multiple basis is good, proving that in spite of all the headwinds, private equity firms focused on the MENA region have been able to both source high-quality investments and generate returns. We should take confidence from their past experience that the region's fund managers will be able to navigate the next wave of challenges.

But there is more to the story. Private capital has an important role to play in the region's broader economic development. While the rapidly growing youth population is a potential boon for firms focused on consumer goods, services, healthcare and education, it's also a clear challenge in the short term as governments struggle to achieve levels of economic growth capable of putting all of these young people to work. The region suffers from a dearth of finance available for businesses, particularly small- and medium-sized enterprises, as well as insufficient management expertise to take companies to their next stage of development. Private capital can bridge these gaps by providing expansion capital, by helping businesses grow in line with international standards, by connecting these companies to new markets, and ultimately by creating licit opportunities for the region's youth to earn a living in the formal economy.

As governments across the Middle East and North Africa increasingly appreciate this connection, they are beginning to engage private sector partners more actively. According to Cem Bayulgen, Managing Director at NBK Capital Partners, "Nearly all regional governments have come to realize that youth employment is critical to stability, and that they alone cannot employ the waves of young people coming into the workforce in the near future. Unless you get the private sector side of the equation correct—and allow the private sector to develop and drive job growth—you're in for a world of trouble."

Unfortunately, private equity remains grossly underutilized, with private equity investment as a percentage of GDP weighing in at just 0.02% for the MENA region in 2014 (see Exhibit 38). Our hope is that in some small way this report will shed additional light on the opportunities for private equity in the region for both investors and regulators, and that the tide will begin to shift—although change will certainly be slow. In an environment where newsfeeds carry more headlines of destruction than construction, private capital can be a positive agent of change. By partnering with local entrepreneurs and building better businesses, the private equity industry can also help the region build a brighter future.

Exhibit 38: Global Private Equity Penetration, 2014



*Sub-Saharan Africa.

Methodology: Annual private equity investment divided by annual gross domestic product.
Sources: EMPEA, IMF, Center for Management Buy-Out Research, Pitchbook, Israel Venture Capital Research Center, Asia Private Equity Review. Data as of March 2015.
Note: 2014 GDP data for Pakistan and Syria not available.

Sampling of Firms Investing in the Middle East and North Africa

Fund Manager	Fund Name(s)	Focus	Website
8 Miles	8 Miles (2012, US$200m)	Africa	8miles.com
Accelerator Technology Holdings	Badia Impact Fund (Fundraising, US$17m)	Jordan	acceleratortech.com
Actis	Actis Emerging Markets 3 (2008, US$2,868m), Actis Africa 4 (2013, US$212m), Actis Energy 3 (2013, US$1,150m), Actis Global 4 (2013, US$1,540m)	Emerging Markets	act.is
Advect Group	Advect Fund I (2011, US$101m)	Middle East	advect.com
AfricInvest	Maghreb Private Equity Fund II (2008, US$178m), AfricInvest Fund II (2010, US$207m), PME Croissance (2012, US$50m), Maghreb Private Equity Fund III (2013, US$167m), FCPR TunInvest Croissance (Fundraising, US$11m), AfricInvest Financial Sector Fund (2014, US$84m), AfricInvest Fund III (Fundraising, US$195m)	North Africa, Sub-Saharan Africa	africinvest.com
Al Mal Capital	Al Mal Capital Partners Fund (2008, US$37m), Al Fares Private Equity Fund (2008, US$29m), Al Mal Food and Beverage Fund (Fundraising)	MENA	almalcapital.com
Al Masah Capital Limited	Healthcare MENA (2011), Al Najah Education (2012), Diamond Lifestyle (2013), Gulf Pinnacle Logistics (2014)	MENA, Southeast Asia	almasahcapital.com
Alkhabeer Capital	Alkhabeer Healthcare Private Equity Fund I (Fundraising)	Saudi Arabia	alkhabeer.com
Almamed	Massinissa Fund (2010, US$65m)	Morocco	almamed.com
Amen Capital	Tunisia Energy Fund (Fundraising)	Tunisia	amengroup.com
Amwal AlKhaleej	Amwal AlKhaleej II (2007, US$290m)	MENA	amwalalkhaleej.com
ATLAMED	AM Invest Morocco (2009, US$44m)	Morocco	atlamed.ma
Attijari Invest	Agram Invest (2006, US$25m), 3P Fund (2012, US$47m)*	Morocco	attijariwafabank.com
Beltone Private Equity	Beltone Capital (2006, US$101m), Beltone MidCap Fund (2010, US$39m)	Egypt	beltonepe.com
Berytech Fund	Berytech Fund (2007, US$5m), Berytech Fund II (2015, US$51m)	Lebanon	berytechfund.org
Byblos Ventures	Byblos Private Equity Fund (2009, US$20m)	Lebanon	byblosbank.com
Capital Group Private Markets	CIPEF VI (2012, US$3,000m)	Emerging Markets	thecapitalgroup.com
Capital Invest	Capital North Africa Venture Fund I (2007, US$50m), Capital North Africa Venture Fund II (Fundraising, US$99m)	North Africa	capitalinvest.co.ma
Capital Trust Group	EuroMena II (2009, US$90m), EuroMena III (Fundraising, US$100m)	MENA	capitaltrustltd.com
Capsa Capital Partners	Swing (Fundraising)	Tunisia	capsa-capital.com
CDG Capital	Fonds CapMezzanine (2008, US$48m), InfraMaroc (2013, US$62m), CapMezzanine II (Fundraising, US$49m)	Morocco	cdgcapital.ma
Delta Partners Capital	Emerging Markets TMT Growth Fund II (Fundraising, US$100m)	Emerging Markets	deltapartnersgroup.com
Development Partners International	African Development Partners II (Fundraising, US$250m)	Africa	dpi-llp.com
Eastgate Capital Group	Eastgate MENA Direct Equity (2007, US$250m)	MENA	eastgategroup.com
EFG Hermes Private Equity	Horus Food and Agribusiness (2006, US$46m), Horus Private Equity Fund III (2007, US$575m)	Egypt	efg-hermes.com
Emerge Ventures	MENA Fund I (2013, Unknown)	MENA	emergeventur.es
Emerging Capital Partners (ECP)	ECP Africa Fund III (2010, US$613m), ECP Africa Fund IV (Fundraising)	Africa	ecpinvestments.com
Foursan Group	Foursan Capital Partners I (2010, US$100m), Foursan Capital Partners II (Fundraising)	MENA	4san.com
Global Capital Management	Global Buyout Fund (2008, US$527m)	Middle East	globalinv.net
GroFin Capital	Intilaqaah Enterprise Fund (2007, US$10m)	Oman	grofin.com
GrowthGate Capital Corporation	GrowthGate Capital Corporation (2008, Unknown)	MENA	growthgate.com
Gulf Capital	GC Equity Partners Fund II (2010, US$533m), GC Credit Opportunities Fund I (2013, US$221m), GC Equity Partners Fund III (2014, US$750m)	Middle East	gulfcapital.com
Havenvest Private Equity Middle East	HSBC Private Equity Middle East Fund II (2008, US$370m), HPEME No. 3 (Fundraising)	MENA	havenvest.com
Helios Investment Partners	Helios Investors III (2015, US$1,100m)	Africa	heliosinvestment.com
Ideavelopers	Technology Development Fund II (2008, US$40m)	Egypt	ideavelopers.com
IFC Asset Management Company (AMC)	IFC Capitalization Fund (Equity) (2009, US$1,250m), IFC African, Latin American and Caribbean Fund (IFC ALAC Fund) (2010, US$1,000m), IFC Africa Capitalization Fund (2011, US$182m), IFC Middle East and North Africa Fund (Fundraising)	Emerging Markets	ifcamc.org

*Joint venture with ATLAMED.

Fund Manager	Fund Name(s)	Focus	Website
Infra Invest	Argan Infrastructure Fund (2010, US$83m)	MENA	N/A
InfraMed Management	InfraMed Infrastructure (2010, US$469m), InfraAfrica Development (Fundraising), InfraAfrica Development (Fundraising)	MENA, Sub-Saharan Africa	inframed.com
Investcorp	Gulf Opportunity Fund I (2008, US$1,000m)	Middle East	investcorp.com
Islamic Corporation for the Development of the Private Sector (ICD)	ICD Food and Agriculture Fund (Fundraising)	MENA	icd-idb.com
Ithmar Capital	Ithmar Fund II (2006, US$250m)	Middle East	ithmar.com
Itqan Capital	Itqan Capital Education Fund (Fundraising)	Middle East	itqancapital.com
JS Private Equity	JS Private Equity Fund (2007, US$158m), JS Private Equity Fund II (Fundraising)	Pakistan	js.com
Kerogen Capital	Kerogen Energy Fund (2012, US$1,012m), Kerogen Energy Fund II (Fundraising)	Asia, CEE & CIS, MENA, Sub-Saharan Africa	kerogencap.com
KGL Investment Company (KGLI)	GCC Infra-Logistics Fund (Fundraising)	Middle East	kglinvest.com
Kuwait LBO Fund	Kuwait LBO Fund (2007, US$40m)	Kuwait	noorlbofund.com
Leap Ventures	Leap Ventures Fund I (Fundraising)	Lebanon, MENA	leap.vc
Levant Capital	Levant Capital Partners II (Fundraising, US$100m)	MENA	levantcapital.com
Macquarie Infrastructure and Real Assets (MIRA)	ADCB Macquarie Infrastructure Fund (2008, US$630m)	MENA	mirafunds.com
Malaz Capital	Saudi SME Fund (Afaq) (Fundraising)	Saudi Arabia	malazcapital.com
Mediterrània Capital Partners	Mediterrània Capital II (Fundraising, US$156m)	North Africa	mcapitalp.com
MENA Infrastructure	MENA Infrastructure Fund II (Fundraising)	MENA	menainfrastructure.com
Middle East Venture Partners (MEVP)	Middle East Venture Fund (MEVF) (2010, US$10m), The Building Block Equity Fund (BBEF) (2013, US$8m), IMPACT Fund (Fundraising, US$63m), Middle East Venture Fund II (Fundraising)	Lebanon, Middle East	mevp.com
MITC Capital	Maroc Numeric Fund (2010, US$12m)	Morocco	mnf.ma
NBK Capital Partners	NBK Capital Equity Partners Fund I (2007, US$250m), NBK Capital Mezzanine Fund I (2009, US$157m), NBK Capital Equity Partners Fund II (2014, US$310m), NBK Capital Mezzanine Fund II (Fundraising)	MENA	nbkcapital.com
Qalaa Holdings (formerly Citadel Capital SAE)	Citadel Capital Transport Opportunities II (CCTO II) (2011, US$130m), Africa Joint Investment Fund (2012, US$80m), MENA Joint Investment Fund (2012, US$57m)	Egypt, Sub-Saharan Africa, MENA	qalaaholdings.com
Sadara Ventures	Middle East Venture Capital Fund (2012, US$30m)	Palestinian Territories	sadaravc.com
Samena Capital	Samena Special Situations Fund (2009, US$181m), Samena Special Situations Fund II (2011, US$340m)	Asia, MENA	samenacapital.com
Sawari Ventures	Sawari Ventures Fund I (Fundraising)	MENA	sawariventures.com
Siraj Fund Management Company (SFMC)	Siraj Palestine Fund I (2012, US$90m)	Palestinian Territories	siraj.ps
Sphinx Private Equity Management	Sphinx Distressed Turnaround Fund (2011, US$57m)	Egypt	sphinxegypt.org
Swicorp	Intaj Capital I (2007, US$250m), Intaj Capital II (2012, US$89m)	MENA	swicorp.com
The Abraaj Group	SGAM Al Kantara Fund (2008, US$226m), Aureos Africa Fund (2010, US$381m), Africa Health Fund (2011, US$105m), Palestine Growth Capital Fund (2012, US$36m), Abraaj Private Equity Fund IV (2012, US$1,600m), Abraaj Africa Fund III (Fundraising), Abraaj Global Healthcare Fund (Fundraising), Abraaj North Africa Fund II (Fundraising)	Emerging Markets	abraaj.com
The Carlyle Group	Carlyle MENA Partners (2009, US$285m)	MENA	carlyle.com
The National Investor (TNI)	Etqaan Shariah Fund (Fundraising, US$24m)	MENA	tni.ae
TVM Capital Healthcare Partners	TVM Healthcare MENA I (2012, US$50m)	MENA	tvm-capital.ae
United Gulf Financial Services North Africa	Tunisian Development Fund II (Fundraising)	Tunisia	ugfsnorthafrica.com.tn
Wamda Capital	Wamda Capital I (Fundraising)	MENA	wamda.com

Source: EMPEA. Data as of March 2015.

EMPEA Methodology

This report provides an overview of trends in private equity and venture capital funds investing in the emerging markets of the Middle East and North Africa. The data and statistics presented here are drawn from EMPEA's database of funds and transactions, FundLink, and are based on information obtained from press releases and trade publications, as well as from communications with industry participants and regional and country-focused venture capital associations. EMPEA updates historical data as we receive fund and investment information from fund managers on a quarterly basis via FundLink.

Unless stated otherwise, "private equity" or "PE" referenced alone encompasses the following strategies: buyout, growth, PIPE, mezzanine, special situations and venture capital. Statistics in this publication exclude real estate funds and funds of funds. Secondary investments are also excluded.

Fundraising totals reported herein reflect only official closes (interim and / or final) as reported in public sources and by the firms themselves. Capital commitments accruing prior to or between official closes are not included. Investment totals included in the report reflect total equity amounts for transactions in which financial details have been reported. For both fundraising and investment data, amounts have been confirmed wherever possible through information provided by the fund managers themselves.

The statistics in this report are based on the "market" approach—EMPEA categorizes activity based on the countries or regions in which fund managers intend to invest (in the case of fundraising) or the country headquarters of the investee company (in the case of investments). In the case of global or multi-regional funds, only those funds investing primarily in emerging markets are included in the totals. Country-dedicated fundraising analytics reflect only those funds with a single-country strategy or mandate. Target allocations to individual markets within a broader global or regional fund are not attributed to single-country fundraising totals.

EMPEA fund and company sector classifications are based on the Industry Classification Benchmark (ICB), which is owned by FTSE International Limited (FTSE). FTSE® is a trademark of the London Stock Exchange Group companies and is used by FTSE under license. FTSE does not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

Abbreviations commonly used in this report:

PE – Private equity

VC – Venture capital

GP – General partner (fund manager)

LP – Limited partner (fund investor)

In some exhibits, percentage labels may not sum to 100% due to rounding. In all tables in which it appears, "N/A" denotes an undisclosed value.

Special note on data included in this report:

In order to better capture the breadth of private capital activity in the MENA region, this report, unlike EMPEA's Industry Statistics, also includes disclosed deals from firms investing via select holding company models, corporate platforms, deal-by-deal structures, core infrastructure funds, debt funds and PIPE-focused funds. Any discrepancies between the MENA statistics presented in this report and those reported in EMPEA's Industry Statistics can be attributed to the inclusion of these alternative private investors.

For more information on EMPEA's methodology, please contact research@empea.net.

FundLink

A comprehensive, proprietary database of EM PE fundraising and transactions

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"We are currently leveraging EMPEA data to better understand where venture capital flows in emerging markets, which markets/sectors have demonstrated the most significant growth, and how venture capital has grown as a percent of total private equity in emerging markets. The data and support from the EMPEA research team has been enormously helpful in answering these research questions."

- Omidyar Network
(Limited Partner, EMPEA Member)

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