

Global PE firms eye region for investments

Failed leveraged buyouts in the US and Europe lead firms to region.

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Global private equity firms, which traditionally came to the Middle East in search of funds to invest elsewhere, are now more likely to make investments in the region.

The trend has emerged in the wake of an increasing number of failed leveraged buyouts (LBOs) in the US and Europe. The Middle East, North Africa and South Asia (Menasa) economies have projected growth rate of four to six per cent in 2010, just below the forecast for China. And a recent survey of 90 companies in the Menasa region showed that 80 per cent of them reported Ebita growth of more than 10 per cent during recession.

"Traditionally PE has tapped investments from the Middle East as the region's ability to attract large amounts of capital locally used to be a major plus," said Josh Lerner, Jacob H Schiff professor of investment banking at Harvard Business School. "However, a number of large groups are now much more focused on investing here. Major players like Abraaj Capital and Citadel Capital and more middle-market-focus groups like Growth Gate Capital have made substantial investments in the region in recent years. That's a very exciting development and we can see much more growth in this line."

According to a recent study by the Emerging Markets Private Equity Association, fundraising for emerging markets PE was down 66 per cent in 2009 from its peak the previous year. But the emerging markets increased their share of global PE investments from seven per cent in 2004 to 26 per cent last year, with \$22.1 billion (Dh81.17bn) invested across 674 deals.

Jonathan Bond, a partner at PE firm Actis, believes the most important feature that emerged during the crisis was the strength of the Menasa PE model.

"It's not about financial engineering, it's about growth," he said. "It's about increasing the number of controlled deals. Leverage will not drive returns



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for us. Another point is appetite, where limited partners want to put their money.

"If you are investors, it's all about relativity. Putting more and more money into failed LBOs in the US and Europe does not work. In terms of macro growth in the region, we really see very strong growth. Every Tuesday we compare the growth opportunities, we compare obviously India, China and Brazil, and Menasa rates very highly on our target list for growth in the last year."

A survey of 100 PE investors revealed that more than 70 per cent wanted to increase their allocation to the emerging markets, and Menasa in particular. This is a new pattern as investors shift their focus from putting money into the US and Europe to the Menasa region.

Middle East PE firms can help to lead regional growth provided they have the right business models and skill sets, according to Hisham El Khazinder, Managing Director and co-founder of Egypt-based PE firm Citadel Capital.

"Citadel believes 2009 is likely to be a vintage year for PE investing," he said.

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