Keeping it private

The World Bank Group has forecast a bright outlook for private equity investment in emerging markets as economic growth picks up around the world. Here, those in the know tell us more about this attractive new prospect.

GrowthGate is a middle-market buyout-firm that seeks to invest capital in promising companies to fund growth and expand footprint. The firm is managed by Keystone Equity Partners.

Karim Souaid is one of the founders of the firm and Managing Partner of Keystone.

Can you explain a little more about the company and its specialisms?

GrowthGate invests in companies operating in the MENA region and especially in the GCC. Our investment strategy is 'selectively opportunistic'. We have invested in businesses spanning from business aviation to waste management. We do not invest in greenfield projects.

Have you felt the effects of the economic downturn? In what ways?

Yes we have. The effects include: (a) scarcity of capital not only for acquisitions but to fund Capex; (b) depressed stock market valuations prompting would-be sellers to reconsider selling in such dire conditions; and (c) portfolio c ompanies' exits in 2009/2010 have been extended well into 2012.

Why are emerging markets such an attractive proposition at the moment?

Some investors consider EM attractive only when developed markets are distressed, others as a must for portfolio diversification. We view EM as characterized by high demand for services, growing populations, and increasing GDPs/capita.

Are there any trends emerging in the EMPE sector?

Oilfield services –renewed investment by energy companies in the upgrade & maintenance of installations; Food sector- defensive nature of this industry in down cycles; and health care- need for such services irrespective of the economic outlook.

Competition between regional firms (like GrowthGate) and bulge-bracket PE firms will not be decided on deal sizes only, but on the comfort level reached with target owners that depend on the intimate knowledge of the markets, and the experience of the PE teams deployed.

Many PE firms remain on the sidelines due to the volatility of the stock markets amidst relatively high valuations that drive away bargain-hunters.

What do you predict the remainder of 2010 will hold for the sector?

2010, will be an investment year with not much exits, with smaller firms being further consolidated with larger ones in anticipation of a global recovery in 2011 and beyond.

Cordiant began operations in 1999 and have since closed five funds, totalling $2.4bn, dedicated to private investment in the emerging markets. The company has now made 160 investments in 57 emerging and frontier markets around the world.

David Creighton is the president and co-founder of Cordiant.

Please tell me more about the company and its areas of expertise?

Cordiant has experience across a broad range of sectors, we find ourselves focusing a significant amount of our energy on infrastructure deals and the financial sector because our experience has been a superior risk/reward profile with such transactions. With regards to countries, when we began operations in '99, we focused on the larger economies (since labelled BRICs). As the emerging markets continue to evolve, we are finding exceptional opportunities in a much broader geography. Our experience in Africa has been particularly good.

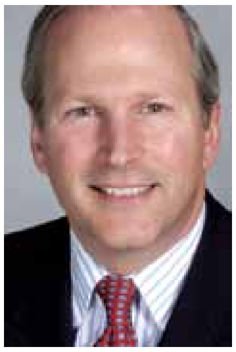
What effect has the economic downturn had on the Private Equity industry?

For most of the industry, the effects have been fairly severe: available funding has largely dried up and investments made prior to the downturn have faced valuation issues. Cordiant's predominantly debt portfolios have been shielded from the event.

Why are emerging markets such an attractive proposition at the moment?

As a result of the fall out of the developed world economies, there is a clear realisation that the structural developments across the emerging markets show a tectonic shift in the world economy. Whether you look at the demographic picture and the growing middle class with their new disposable income, or you compare market capitalisation versus population, the story is the same.

Karim Souaid



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