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PRIVATE EQUITY & VENTURE CAPITAL IN THE MIDDLE EAST

ANNUAL REPORT 2009

2009

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Special Thanks

Special thanks go to all those who contributed their time and effort to make this report possible, and include:

KPMG Team: Vikas Papriwal, Dale Gregory, Liam Barry, Vaseem Chapra and Dinesh Taneja

Zawya Team: Ali Arab, Lara Ghibril and Ibrahim El Sabbagh

We would also like to thank all the sponsors for their support and all the survey participants.

Foreword

After the recent dramatic events in the private equity industry worldwide, its future remains uncertain. Nonetheless, several predictions can be made with confidence.

First, much of the growth of venture capital and private equity activity is going to take place in emerging markets, including the MENA region. The trend towards increased interest in emerging economies was evident from the first days of the 21st century. The financial crisis of 2008 and the attendant recession have accelerated this trend. While there will be growing pains in many markets, I am optimistic about the longer-term prospects for private equity in emerging economies, especially the MENA region.

A related change will be a shift in the ranks of who is raising private equity. According to the Emerging Market Private Equity Association, 26 percent of the total amount invested by private equity funds in 2009 went to companies based in emerging markets, but only 9 percent of funds raised was by groups based in these markets. Going forward, it is likely that emerging market-based groups will gain a much larger share of the global private equity pool.

Emerging market private equity groups are also likely to feel the trends shaping the industry world-wide. Two will be particularly important: incentives and government involvement.

The model of 'loose governance' by limited partners, who rely on incentive compensation to ensure that general partners 'do the right thing' may have reached its limits. The disappointments brought about by the bursting bubbles of the late 1990s and mid-2000s have opened the door to tough questions. As a result, we are likely to see increased attention — and perhaps a fundamental rethinking of — the way in which private equity groups are governed and rewarded.

Public sector involvement will also increase. This will have two faces. On the one hand, the continuing challenges that entrepreneurs are likely to face in many markets will encourage increased government subsidies of venture and growth equity funds. On the other hand, the perceived necessity of preventing another financial meltdown will encourage more regulation of funds. The venture capital and private equity industries will need to do a much better job of explaining to legislators and bureaucrats what economic role they play, and why it is an important contribution to society. For the MENA region, where private equity is still in its relative infancy, there is an opportunity for increased self-regulation before the likely wave of greater regulation in developed markets sweeps across the globe. MENA private equity groups are in the fortunate position of operating in a region with an exciting economic future and of having the opportunity to learn from the mistakes of their more established peers in the United States and Europe.

Carpe diem; seize the day!

Josh Lerner
Harvard Business School
May 30, 2010

1 Important Notice

1 Important Notice

1.1 Basis of preparation

This report has been prepared based on data provided by GVCA, sourced from the Zawya Private Equity Monitor. Historical data has been updated from that used in the 2008 GVCA report to include full year results for 2009 and to reflect increased disclosure of information in the market. KPMG member firms have not initiated any primary research in relation to this draft report and have not sought to establish or confirm the reliability of the data provided by GVCA and Zawya.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is or will continue to be accurate. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

In analysing and determining the parameters of available data, it has been necessary to apply certain criteria, the most significant of which are as follows:

- Private equity has been defined to include houses that have a General Partner / Limited Partner structure, investment companies and quasi-governmental entities that are run by, and operate in the same way as, a private equity house.
- Funds managed from MENA but whose focus is to invest solely outside the region are excluded from the fundraising and investment totals.
- MENA includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, and Yemen.
- Investment size represents the total investment (both the debt and equity portions). However fund size only considers equity invested, as we have no visibility on debt exposure by funds.
- The fund raising totals are the amounts closed/committed for fund raising funds, closed funds, investing funds, fully vested funds and liquidated funds.
- Given the relative nascent state of the industry in MENA, exits have been defined to include partial exits, although simple dilutions have not been included.

1.2 Definitions and assumptions

For analytical purposes, we have considered the following types of funds, as defined by Zawya's Private Equity monitor:

- Announced: Official launch of funds which are yet to commence fund raising.
- Rumoured: Funds expected to announce their intention to commence fund raising.
- Fund raising: Funds which have been announced and are in the process of raising capital.
- Investing: Funds which have closed and are actively seeking and/or making investments.
- Fully vested: Funds that have invested all capital raised. Some of the investments may have divested in this stage but not all.
- Liquidation: Funds which have divested all investments and have fulfilled all obligations to shareholders.

1.3 Data Filtering

The primary data sourced from Zawya has been filtered according to the definitions used in the Emerging Markets Private Equity Association (EMPEA) research methodology.

In particular we have used the following definitions:

Fund Size: In the case of funds yet to make a first close, or where no close information is available, fund size is equivalent to the target amount, and is noted as such. For funds achieving at least one official close, fund size is reported as the capital raised to date, while for funds that have made a final close, the fund size is the total capital raised. All amounts are reported in USD millions. Rumoured funds are excluded.

Currency: Where funds data has been provided in a currency other than USD, exchange rates applied are from the last day of the month in which each close is reported, e.g. first close reported in € on 15 April 2006 would be calculated using the exchange rate for 30 April 2006, taken from publicly available sources.

Funds of funds or secondaries are excluded.

Region: Statistics are based on the 'market' approach and funds are categorised based on the intended destination for investments (as defined in a fund's announced mandate) as opposed to where the private equity firm is located. With regard to multi-region funds, we have included these to the extent that there is a focus on the MENA region. EMPEA methodology is to include only those multi-region funds whose primary intention is to invest in emerging markets. However, the source data does not provide visibility on primary geographic intention.

Funds established with a specific mandate to invest in real estate are excluded from the fundraising, investment and exit totals. The remaining real estate investments relate to funds with mixed investment mandates.

Conventional infrastructure funds, or funds investing directly in greenfield infrastructure projects (e.g. bridges, roads etc.) are excluded from fundraising totals. However, funds that make private equity investments (determined based on target returns) in companies operating in the infrastructure sector are included.

EMPEA does not track or report other alternative asset classes, including hedge funds, real estate funds and conventional infrastructure funds. In our analysis we have excluded data from investment-type companies, real estate firms and Sovereign Wealth Funds (SWFs have not been included in the current year analysis).

2 GVCA Introductory Message

After years of exponential growth, our region's private equity industry encounters its first significant challenge since its take-off in 2004. The changing scene of the private equity landscape seems inevitable as the global economy continues to experience the ripple effects of the financial crisis. Fund raising suddenly dried up; new quality investments became rarer; and many previous investments are struggling as the winds of growth reverse their direction.

Last year witnessed the start of the consolidation in the industry and the "survival for the fittest". Those players with defendable track records, viable investment strategies, and experienced teams seem to continue to cruise along, albeit in a rougher environment. It became apparent as we examined the data of 2009 and first quarter 2010 that indeed few managers were active -- whether in fund raising or in investing -- but dozens were silent. Like in all periods of economic difficulty, a natural process of selection will result in only the best breed of managers surviving the current difficulties.

Yet, the outlook for private equity in the region remains positive. The reduced activity in fund raising or investing will be challenging for many players in the short term, but we have no doubt that it will strengthen the industry in the long term as performance and track record become the prevailing measures of success. Those who have evolved and matured will reap the rewards of a promising future.

A final note of thanks to our sponsors – many of whom are repeat sponsors from previous years. Double thanks to those institutions that were affected by the crisis yet continued with the tradition of supporting this report.

Finally, this report is the fruit of many days of hard work from the teams of KPMG and Zawya. Thank you all.

Imad Ghandour
Chairman
Information & Statistics Committee
Gulf Venture Capital Association

Ihsan Jawad
Director
Information & Statistics Committee
Gulf Venture Capital Association

3 KPMG Introductory Message

KPMG in the UAE is pleased to continue its association with the GVCA's annual report on private equity in the Middle East and North Africa region for the fourth consecutive year.

At the start of 2009, many people hoped it would be a successful year for the industry in the MENA region, with an abundance of dry powder and a significant drop in asset values. Private equity appeared perfectly placed to take advantage of its strategic position and experts were confidently forecasting a promising vintage year for investments.

However, the expected deals failed to materialise primarily due to the scarcity of acquisition finance as well as an ever present value gap between sellers and buyers.

In 2010 this now means that, not only has the dry powder accumulated over recent years not been invested, but uncertainty now exists as to the actual amount of dry powder available for deployment. Three major funds that together closed $850 million in 2008 have since been cancelled as has a fund that raised $250 million in 2009. Adding to this uncertainty is the question mark over the ability of fund managers to successfully call on capital commitments made in prior years.

Notwithstanding a significant drop in both fund raising and investing in 2009, the industry has been far from inactive during the year. Many funds are faced with a legacy of assets purchased when values were high and debt was cheap and readily available. Given this and the current unattractive exit landscape, fund managers have refocused their gaze inwards at their own portfolio rather than seeking out new opportunities. This has meant considerable investment into operational improvements, working capital management and debt restructuring.

The impact of the financial crisis has also led to a demand for more LP involvement and transparency in decision making compared to the old PE model. There is increased pressure for managers to generate value from investments which we expect will result in a greater focus on pre-acquisition due diligence and portfolio management going forward.

Private equity executives are again forecasting a busier 2010 as economic conditions improve and investor appetite returns. We are seeing both local and international players mobilising with a focus on the growing economies and populations in the region. Fund raising activity in the first quarter of 2010 appears to suggest that the recovery has begun, but only time will tell.

Vikas Papriwal

Partner, Country Head of Private Equity and Sovereign Wealth Funds, KPMG in the UAE

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KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 146 countries and have 140,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG's presence in the Lower Gulf dates from 1973. With more than 700 professional staff and over 26 partners, we operate from offices in Dubai, Abu Dhabi, Sharjah and Muscat. We also work closely with our colleagues in offices throughout the region and across the world.

4 Private equity in the MENA region

4.1 Summary

4.2 Funds

4.3 Investments

4.4 Deployment of funds

4.5 Regional focus

4.6 Sector focus

4.7 Exits and IRR

4 Private equity in the MENA region

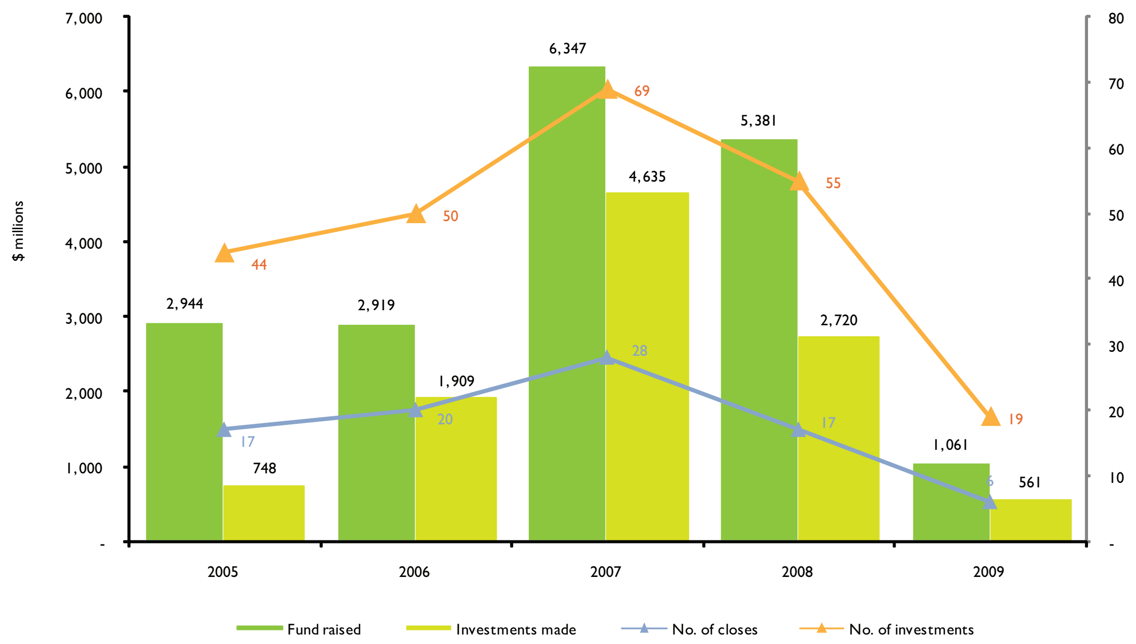
4.1 Summary

The recent economic conditions have certainly impacted private equity in 2009 and both fund raising and deal making activity in the region reversed its trend after the exponential growth of recent years.

Fund raising has been difficult in a volatile market with mounting uncertainties and risks and investors, feeling the impact of the crisis, have been forced to reassess their return expectations and risk appetite. Total value of funds raised decreased from $5.4 billion in 2008 to $1.1 billion in 2009 and the number of annual fund closings also decreased from seventeen to only six in each year, respectively. However, a glimmer of a rebound appeared in the first quarter of 2010, as $1 billion was raised from only six funds, suggesting investors' appetite may be returning to the market.

The dry powder which was earmarked to be invested in opportunities in a falling market remains largely undeployed. 2009 witnessed only 19 transactions totaling $561 million, compared to $2.7 billion from 55 transactions in 2008. This is primarily due to the fact that investment opportunities have been scarce as a result of limited access to acquisition finance and a persistent price gap between sellers and suitors.

Funds raised and investments made



Note: The graph above has the following limitations:
- Funds raised represents committed capital and does not distinguish amounts called
- Investments do not take into consideration the level of debt financing that was contributed to the investment value
Source: Zawya Private Equity Monitor

As in previous years, countries attracting the majority of investments were Saudi Arabia, Turkey, Egypt and the UAE, owing to promising economic and demographic prospects, expectations for increasing government spending on transport and infrastructure and, in the case of the UAE, an abundance of potential sellers.

As a result of the current environment of economic uncertainty, fund managers have set their sights on sectors considered to be defensive or non-cyclical as well as those expecting to benefit from increased government spending such as logistics/transportation, oil and gas, power and utilities.

The average deal size decreased to $30 million compared to $67 million in 2007. The gravitation of transactions back to the mid-market is the result of the absence of acquisition finance and lower growth potential of the larger transactions.

As the industry reassessed its exit options, or lack thereof, funds extended their investment timelines and focused more on portfolio performance and improvements. Financing has challenged fund managers as many are forced to re-price, refinance or restructure acquisition or company debt.

Mustafa Abdel-Wadood

Managing Director,
Abraaj Capital

CEO, Abraaj Investment
Management Ltd.

Inflection Point for MENA Private Equity

The last 18 months have been momentous. Our region, the Middle East, has not been immune to the global economic downturn, as should be expected in an increasingly interconnected and interdependent global financial system. Nonetheless, with some minor though highly visible exceptions, MENA economies remain fundamentally strong and continue to grow. The twin engines of high-absorption capacity for investment, in both hard and soft infrastructure - given the earlier stage of development of most regional economies - and the significant surpluses from hydrocarbons, against a backdrop of surging demographics and uninterrupted economic reform, give good reason to be optimistic about our region's economic future.

2009 marked an inflection point in the evolution of the regional private equity industry. Following an unprecedented boom when new fund announcements seemed to spring up at near-weekly intervals, the turbulence of the past two years has been a tough test that clearly highlighted the gap between the industry's leaders and weaker performers. Fundraising across the globe and in our region was very muted, as was deal activity; a combination of volatility in the overall economic environment and, in many cases, a priority focus on supporting legacy portfolios, resulted in hardly any transactions reaching fruition. Exits also largely made no sense except if pressured for liquidity. This testing period has led to an inevitable shake out and fundamental re-shaping of the industry landscape which is part of the necessary maturing process of the regional private equity industry.

We are fortunate in our part of the world to have rapidly growing economies. Given the significant growth capital opportunities, we should be there to aid in that growth, offer strategic support, operational support, capital, and best practices to the businesses we partner with. Track record, transparency and the ability to add value to portfolio companies have become critical differentiators. Again this is part of the inevitable reshaping and evolution of our industry. As our industry matures, the surviving players have gained valuable lessons from the downturn, and this will no doubt make us all better partners for ambitious entrepreneurs and management teams across the Middle East.

The future of our region is undoubtedly bright. The Gulf Arab states sit atop almost 40 per cent of the world's oil reserves but only pump about 23 per cent of world production. Oil prices have recovered since their lows of early 2009. With the petrodollar surplus comes the capacity to invest. Our industry also sits at the nexus of a vast region where almost a third of the world's population live, where about half are under the age of 25 and where all seek the kind of consumer life the West has enjoyed for decades. All the fundamental drivers for the generation of superior returns are there. We just have to catalyse them and capitalise on them.

Back to Basics

Dr. Karim El Solh

Chief Executive Officer
Gulf Capital Pvt. JSC

As the past couple of years have revealed, private equity houses that focus on building solid businesses and sustainable growth are the most likely survivors during these turbulent times. Operational improvements and bottom-line growth are the new investment mantra. Firms that do not adopt these added value investment strategies will probably become irrelevant or face extinction.

Success stories in building businesses and regional champions are starting to emerge after years of hard work by both management and their private equity backers, with companies such as Metito, Depa, and Aramex emerging as global players in their respective fields. These are concrete examples of private equity-backed businesses that have focused on growth, expansion and profit enhancements with the strong backing of their private equity investors who all stand to earn handsome returns on their investments.

In the early days of the MENA private equity industry, some players counted on multiples arbitrage opportunities in pre-IPO plays. Today these arbitrage opportunities have evaporated, with private deals frequently selling at a premium to public markets. Another strategy relied upon was leverage, and with the advent of the financial crisis, local and global lenders became risk averse and less likely to finance acquisitions, thereby making leveraged buy-outs almost impossible.

Private equity investments – at least those that deliver superior returns – are carefully crafted. This is hard work and a fine art. Investment firms have to develop sectoral mapping, top-down investment themes, and proprietary sourcing. For example, the investment team members at Gulf Capital are sectoral specialists with substantial industry expertise, deep regional contacts and a particular insight on how to source and execute deals in their verticals.

The growth strategy for each investment is carefully planned and documented during the due diligence period. Post-acquisition, our investment teams enlist the assistance of a broad network of experts – from industry consultants, operating partners, advisory board members, and independent directors -- to support the cherry-picked management team. We may not control the might of the storm, but we can improve our odds by picking the best captains and sailors for our fleet!

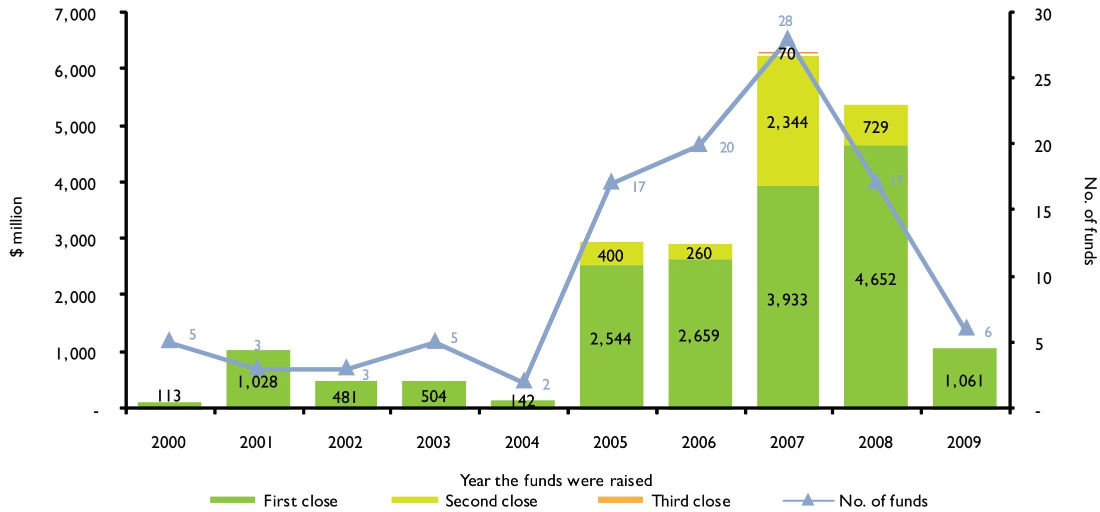
Control and influence on the acquired businesses have become more crucial, especially in these more difficult and unpredictable times. The ability to control companies and drive changes where necessary is arguably one of the most important tools available to private equity firms – a key ingredient to successfully grow and exit investments.

In the roaring years of the last decade, the wind was blowing in the sail of almost every company in the GCC, hence the strong returns, virtually across the board. The fundamentals of the region are still promising, with the windfall from oil exports and government spending ensuring sustainable growth in the local economies for years to come. Nonetheless, there will still be cycles and turbulences ahead, even to the best run companies. The private equity firms that control, influence and help their portfolio companies to navigate through these choppy waters will be able to outlast the storm and come out on top. This is the only sustainable investment strategy for the new decade.

4.2 Funds

4.2.1 Funds raised to date

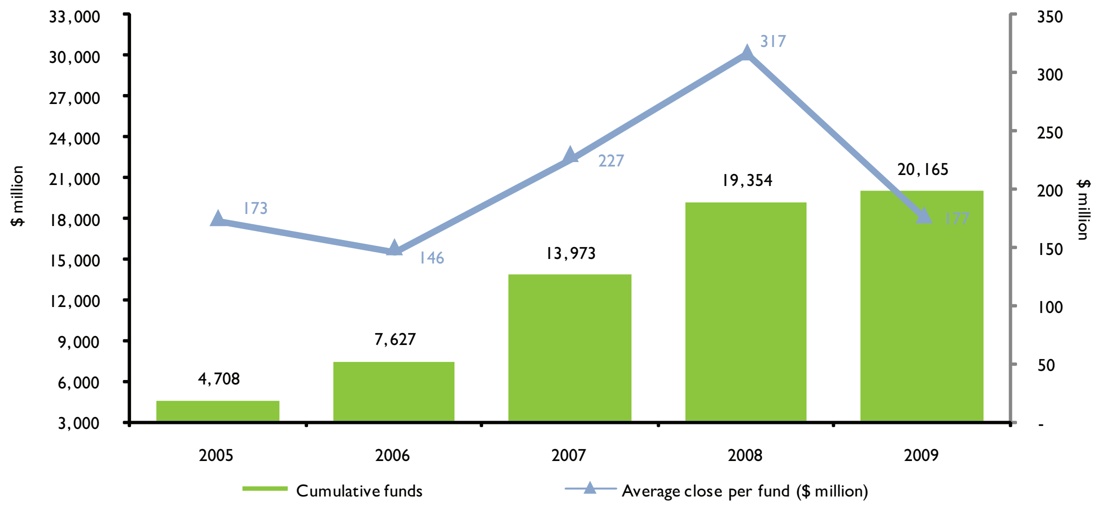
Funds raised by year



Source: Zawya Private Equity Monitor

As investors digested the impact of the global financial crisis and fund managers focused more on managing their existing portfolios, funds raised in 2009 decreased dramatically to $1.1 billion from six funds, compared to $5.4 billion from seventeen funds in 2008. Of the total funds raised in the last decade 84 percent ($17.6 billion) were raised between 2005 and 2008.

Cumulative funds under management since 2000



Note: The cumulative funds data in the above graph excludes liquidated funds
Source: Zawya Private Equity Monitor

Despite the decrease in fundraising activity in 2009, cumulative funds under management have peaked in 2009 raising from $4.7 billion in 2005 to $20.2 billion in 2009.

The average fund size has decreased for the first time since 2006 from $317 million in 2008 to $177 million in 2009, reflecting a trend towards smaller funds.

Major funds raised in 2009

Fund name	Fund manager	Investment focus	Announced year	ITS ($ million)	Fund raising in 2009($ million)
InfraMed Fund	EFG-Hermes Private Equity	Infrastructure	2009	1,321	529
ADIC-UBS Infrastructure Investment Fund I *	Abu Dhabi Investment Company	Infrastructure	2008	600	250
Foursan Capital Partners I	Foursan Group	Buyout	2006	200	100
EuroMena fund II	Capital Trust	Balanced Fund	2008	250	100
Sphinx Turnaround Fund	Sphinx Private Equity Management	Distressed	2009	100	52
Beltone MidCap Fund	Beltone Financial Holding	Buyout	2008	200	31
Total				**2,671**	**1,061**

** fund was cancelled.*
Source: Zawya Private Equity Monitor

As a testament to the challenges faced in 2009, the $1.1 billion raised by the above six funds represented only 40 percent of their total Intended Target Size (“ITS”). A further $1.2 billion was announced by four other funds in 2009 that failed to make a close. Furthermore, three funds that together raised $850 million in 2008 have since been cancelled.

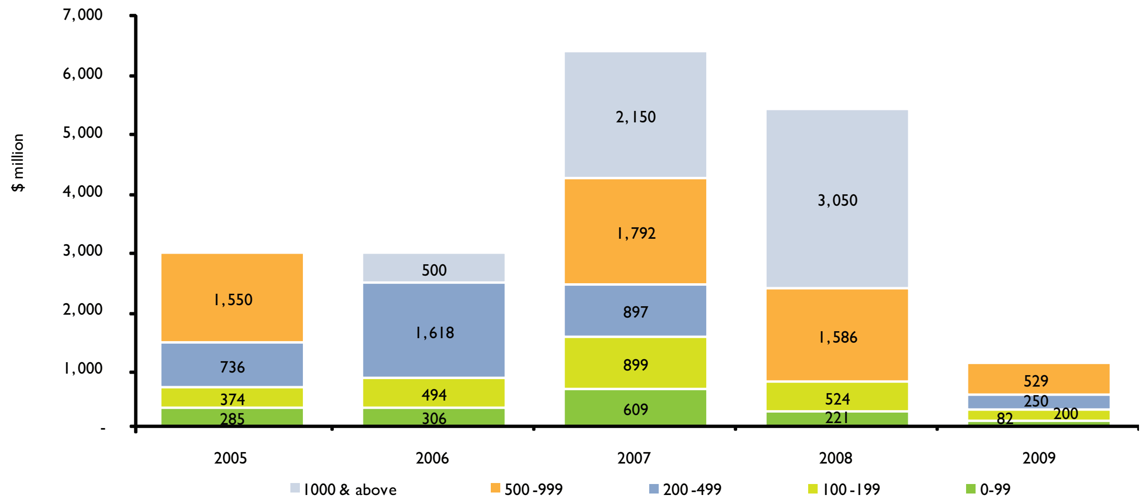
The most prominent fund raising in 2009 was the EFG Hermes InfraMed Fund (closing $529 million) which has a strategic focus on government infrastructure projects in the coming years capitalising on investor appetite for stable and low-risk cash flows. The fund was launched in partnership with European sponsors, and plans to invest in the southern and eastern Mediterranean regions with a portion of the fund dedicated to Egypt and managed by EFG Hermes.

The ADIC-UBS fund was a joint venture launched in 2008 focusing on infrastructure sectors such as transport, power, water, healthcare, and education. Despite achieving a successful close in 2009, the fund was recently cancelled for “strategic” reasons.

The Foursan Capital Partners Fund expects to make a final close in 2010 targeting $200 million. It is aiming to acquire significant stakes in high growth SMEs in Jordan and surrounding countries in a range of sectors such as financial services, food and beverage, education, aviation, pharmaceuticals and healthcare.
The Euromena Fund II, managed by Capital Trust, is another new fund adopting a similar strategy to its first fund which looked to regionalise country level investments through bolt-on acquisitions.

The fund raising activity in 2009 highlights two interesting trends. First, the rising role of Egypt and the Levant in the private equity landscape, given that five out of the seven funds raised were for fund managers based in these regions. Not surprisingly, Egypt and the Levant were also the regions least affected by the economic crisis, even less so than the GCC. Second, if infrastructure funds are excluded, most growth and buyout funds are now smaller in the range of $100 million to $250 million compared to $500 million to $1 billion in prior years. Fund managers are realising that, in a more challenging fund raising environment and given a downward trend in the average deal size, smaller funds may fare better.

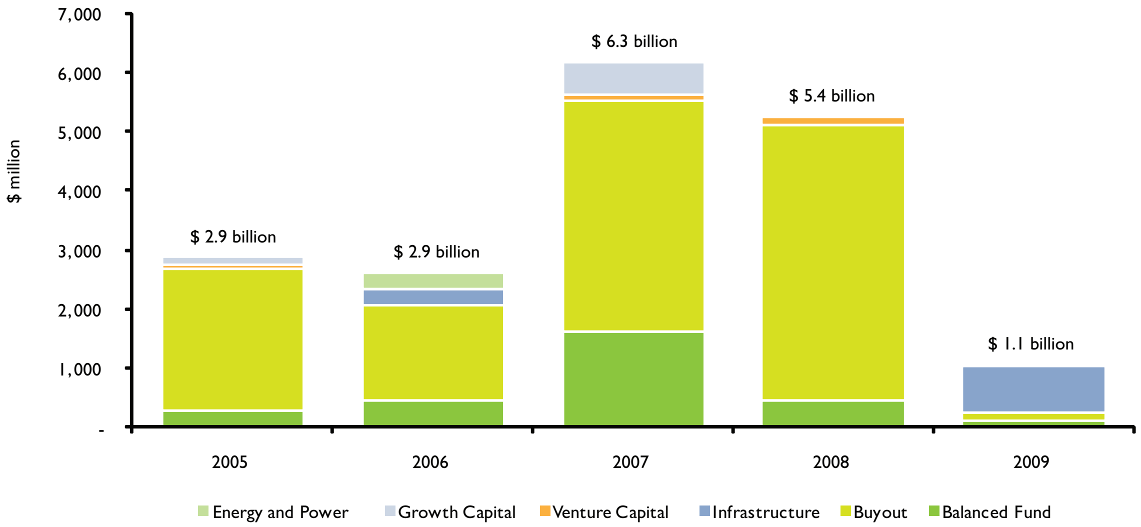
Funds raised by fund size



Source: Zawya Private Equity Monitor

Whilst there was no activity from any $1 billion-plus funds in 2009, the majority of funds raised (73 percent) came from large fund managers such as EFG Hermes and ADIC-UBS.

Funds raised by investment focus



Source: Zawya Private Equity Monitor

The InfraMed and the ADIC-UBS infrastructure funds together accounted for 73 percent of total fund raisings in 2009. The fact that the ADIC-UBS fund has since been cancelled should not detract from the fact that there was sufficient investor appetite to make a close in 2009.

Prior to 2009, buyout funds dominated the scene, accounting for approximately 72 percent of annual fundraisings between 2005 and 2008 and accumulating a total of $12.6 billion. Given the declining appetite of investors for illiquid investments, the lack of acquisition finance, and the existing levels of dry powder, it is unlikely that the region will see a launch of large buyout funds in the immediate future.

4.2.2 Funds raised in the first quarter of 2010

Major funds raised in 2010					
Fund name	Fund manager	Investment focus	Announced year	ITS ($ million)	Fund raising in 2010 ($ million)
EVI Capital Mezzanine Fund	EVI Capital Partners	Mezzanine Capital	2010	400	320
EVI Capital Buyout Fund	EVI Capital Partners	Buyout	2010	400	320
DB Masdar Clean Tech Fund	Masdar Venture Capital,DB Climate Change Advisors	Energy and Power	2010	500	265
Abraaj RED Growth Capital (SME) Fund	Abraaj Capital	Growth Capital	2010	700	250
Gulf Capital Equity Partners II	Gulf Capital	Buyout	2008	533	57
Shefa MENA Health Fund	TVM Capital MENA	Growth Capital	2010	100	40
Total				2,633	1,252

Source: Zawya Private Equity Monitor

In the first quarter of 2010 approximately the same level of funds were raised in the region as the full year of 2009. Furthermore, with the exception of the $57 million close by Gulf Capital Equity Partners II, all funds raised were from funds announced in 2010, suggesting the fund raising environment may have turned a corner.

The DB Masdar Cleantech Fund and two EVI Capital funds together closed $905 million, suggesting that there is still an appetite for emerging fund managers in the region. Both funds introduced new themes that seem to be capturing investors' attention. The former is banking on the cleantech trend, while the latter is focused on the Middle East + Africa theme.

The two funds raised by EVI Capital are expecting to make a final close in the third quarter of 2010 and are looking to be fully invested within two to three years with an investment focus on energy, infrastructure and real estate in the MENA region and sub-Saharan Africa.

The other major fund raising this year was by the joint DB Masdar Cleantech Fund focused on sectors such as clean energy (power generation and storage), environmental resources (water, waste management) and energy and material efficiency (advanced materials, building and power grid efficiency, enabling technologies).

4.2.3 The fund raising cycle

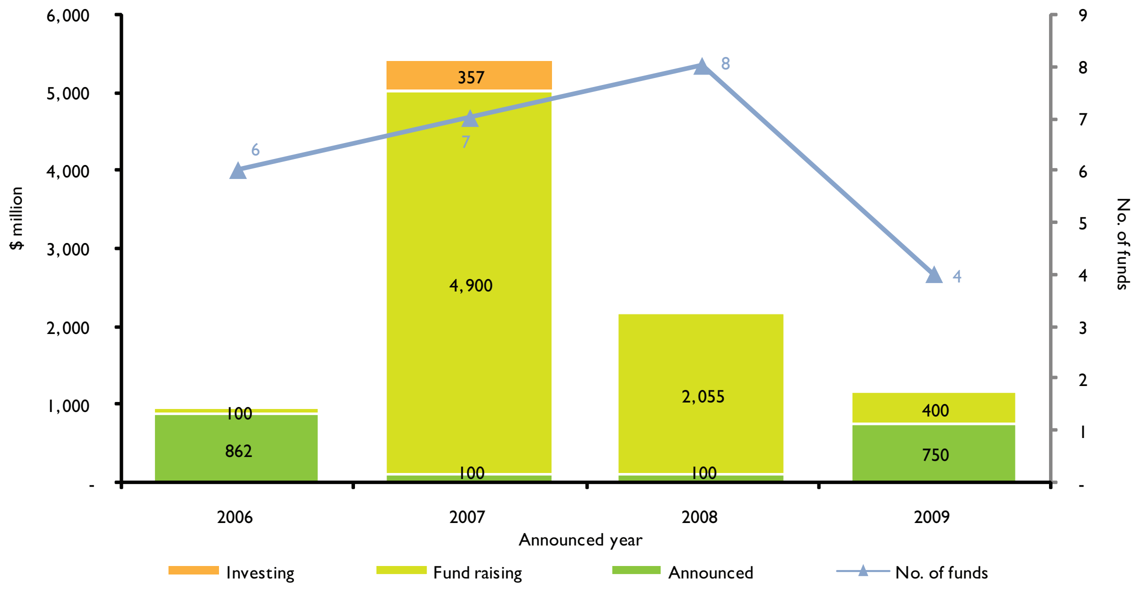
Fund raising cycle					
Year	Announced ITS ($ million)	Raised in same year	Raised in year 2	Raised in year 3 and later	Yet to be raised
2005	4,282	63%	12%	7%	18%
2006	9,506	25%	30%	8%	36%
2007	10,954	29%	8%	0%	63%
2008	7,864	49%	5%	1%	46%
2009	2,571	23%	n/a	n/a	77%

Source: Zawya Private Equity Monitor

The portion of funds' ITS not yet raised reached a new record in 2010 at 77 percent. Of the six new funds that were announced in 2009, only two funds were able to make a first close (representing 23 percent of the total amount announced). Of the $32.6 billion announced between 2005 and 2008, $14.7 billion (45 percent) has not been raised to date. Given the difficulties faced in 2009, as well as the fact that the majority of funds raised in the first quarter of 2010 were also announced in 2010, further closes from funds announced prior to 2009 are considered unlikely.

4.2.4 Funds yet to be raised

Funds yet to be raised by status



Source: Zawya Private Equity Monitor
Note: The fund classified as "investing" (Alimtiaz Investment Fund) is in the process of fund raising and investing but has not yet formally closed.

As discussed, for funds announced prior to 2009 that have achieved at least one close, it is unlikely that they will make further closes given the current market conditions. The above graph and the table below detail only those funds that are yet to make a first close.

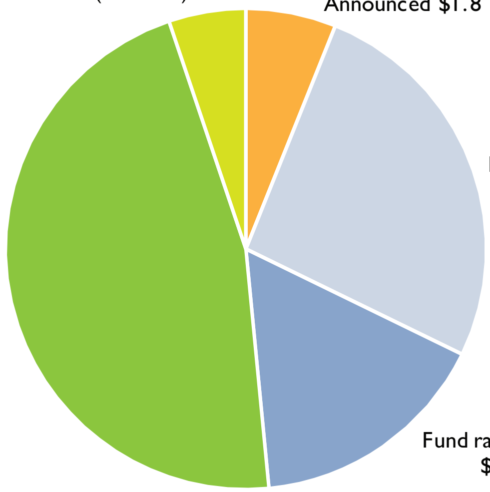
Major funds yet to make a close

Status	Fund Name	Investment focus	Geographic focus	Announced year	Funds yet to be raised ($ million)
Fund Raising	DIB / DPW Family of Funds	Buyout	Worldwide	2007	3,000
Fund Raising	EMP Energy Fund	Buyout	MENA,GCC	2007	1,000
Announced	Fortune Management PE Funds	Buyout	GCC	2006	600
Announced	Al Masah MENA Private Equity Fund	Buyout	MENA	2009	500
Fund Raising	Citadel Capital Joint Investment Fund	Buyout	MENA	2008	500
Fund Raising	The Port Fund L.P.	Buyout	MENA,Africa,Asia	2007	500
Fund Raising	Merchant Bridge- UBS Private Equity Fund	Buyout	MENA	2008	500
Fund Raising	Invest AD Private Equity Partners II L.P.	Growth Capital	MENA	2009	400
Fund Raising	MENA Private Equity Fund	Balanced Fund	GCC	2008	400
Fund Raising	The Marshall Fund	Growth Capital	Iraq	2008	300
Investing	Alimtiaz Investment Fund	Buyout	MENA	2007	357
Announced/ Fund raising	Others	Various	Various	2006-2008	1,567
					9,624

Source: Zawya Private Equity Monitor

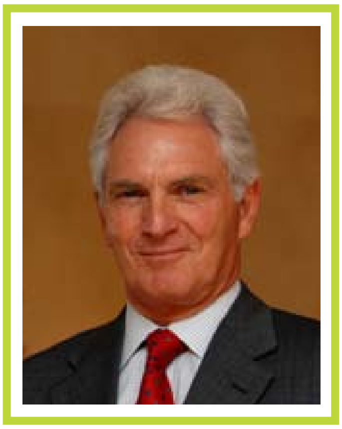
From 2006 to 2008 fund managers in the region had attempted to raise larger funds than in previous years, which may also be a contributing factor to the delay between announcement and first close. As the industry matures and consolidates, some of the funds announced, mainly by new fund managers, may never reach successful closure. Other funds may reduce their target size such as Abraaj's Buyout Fund IV which lowered its ITS from $4 billion to $2 billion (and its first close from $2.4 billion to $2 billion).

4.2.5 Total active funds



Source: Zawya Private Equity Monitor

The total size of all active funds in the market in 2009 (both raised and yet to be raised) was $29.9 billion, of which $20.2 billion has been raised. Of the 124 active funds in the market, 16 have announced a total of $7.8 billion that they are in the process of raising and 9 are yet to commence raising an ITS of $1.8 billion.



Dr. Nasser Saidi

Chief Economist of the DIFC Authority (DIFCA)

Executive Director of the Hawkamah-Institute for Corporate Governance

A New Leaf for Private Equity Corporate Governance?

Financial crises and corporate scandals have traditionally fueled the formulation and adoption of improved corporate governance principles and practices across the world, and the current crisis is no exception. Regulators and investors have been assessing the causes of the ongoing global crisis. The general consensus is that governance failures and malpractices contributed, if not directly causing the near financial meltdown.

Closer to home, recent high profile and well-documented cases such as Al Gosaibi-Saad, involving the debt problems and financial disputes of these Saudi conglomerates, and the failure to consult shareholders in real estate investment decisions by listed jewelers, Damas have clearly demonstrated the dire consequences when internal controls and the overall governance framework fall apart. Corporate governance risk is now understood as a component of systemic financial risk. Sound governance therefore contributes to financial and market stability.

For the Private Equity (PE) industry the regulatory and investment landscape is changing. Regulators are paying closer attention to PE houses and also limited partners are re-focusing on fund governance. For example, the globally active Institutional Limited Partners Association recently released principles intended to better align interests between general partners and limited partners, enhance fund governance and provide greater transparency to investors.

Many institutional investors such as pension funds are now putting corporate governance principles at the core of their business practices. Fund managers will come under pressure to adopt formal corporate governance guidelines in their investment and ownership process. Although many PE firms, globally and regionally, state that they take corporate governance into account, very few have adopted manag-ement procedures to guarantee that process. Implementation is key!

International institutional investors are also giving more prominence to environmental and social (ESG) criteria in investment decisions. ESG is beginning to make its mark on the PE industry through organisations such as the UN-affiliated investor initiative for Principles for Responsible Investment, UNPRI.

To address these important developments, Hawkamah set up a Task Force on Corporate Governance in PE with regional firms and international entities including UNPRI to assist regional PE firms and PE-backed companies in strengthening their corporate governance frameworks. The Task Force has surveyed current corporate governance practices in regional PE firms and is formulating draft guidelines for the PE industry, setting out best practices while taking into account regional realities and encompassing the roles of limited partner, general partners as well as portfolio companies. These principles and guidelines are to be issued later in 2010 after a public consultation. We look forward to the further engagement of the PE industry in developing and adopting these guidelines.

Zulfi Hydari

Group Managing Director
HBG Holdings

A tsunami strikes Middle Eastern private equity

If you want to know what it feels like to lead a private equity firm in the midst of a global financial crisis, just imagine sitting at the wheel of a large transportation truck, cruising at 200kph, and then having to do a handbrake turn as it suddenly decelerates from 200kph to a standstill. For those still interested in the position please send your CV to my office, but beware that your sanity will be called into question. You have been warned.

Joking aside, it is no secret that the onset of the financial crisis has caused the private equity juggernaut to come to a shuddering halt. Yet despite the downturn, it was apparent to many private equity leaders that there could be significant opportunity in this crisis. In particular, it was suggested that the sudden disappearance of credit would force private companies across the region to seek capital from alternative sources, and perhaps, to do so at distressed valuations.

Alas that was not to be the case. Valuation gap between buyer and seller narrowed slightly in 2009. And whilst it's true that credit dislocation has drained liquidity from regional business portfolios, the brunt of the impact was absorbed by regional banks as they shored up artificial valuations by standing behind their clients, albeit reluctantly. It is therefore not surprising that we didn't see many distressed transactions and deal flow continued to be weak.

The pace of deal-making will most likely continue to be sluggish but the good news is that private equity firms and family groups have been busy restructuring and deleveraging their portfolio companies. We should therefore expect to see improved deal flow in 2010 and beyond.

Industry commentators often assume that private equity firms either have access or will get access to capital in order to participate in new opportunities. This might prove to be highly optimistic. Globally, 2009 was the worst year for fundraising since 2004 and the Middle East didn't fare any better. Most regional LP's made no new commitments and did not have sufficient liquidity to meet expected drawdowns. It is therefore highly unlikely that official estimates of dry powder will be converted into cash.

Clearly the near-term prospects for private equity remain uncertain. Even my earlier predictions of a dramatic reduction in the number of industry participants are now more widely accepted. There is no doubt that private equity is here to stay and it will play an increasingly pivotal role in the development of the private sector. Our estimates suggest total private equity investments will grow by at least 3x by the end of the next cycle which bodes well for the industry. So fasten your seat belts and enjoy the ride.

4.3 Investments

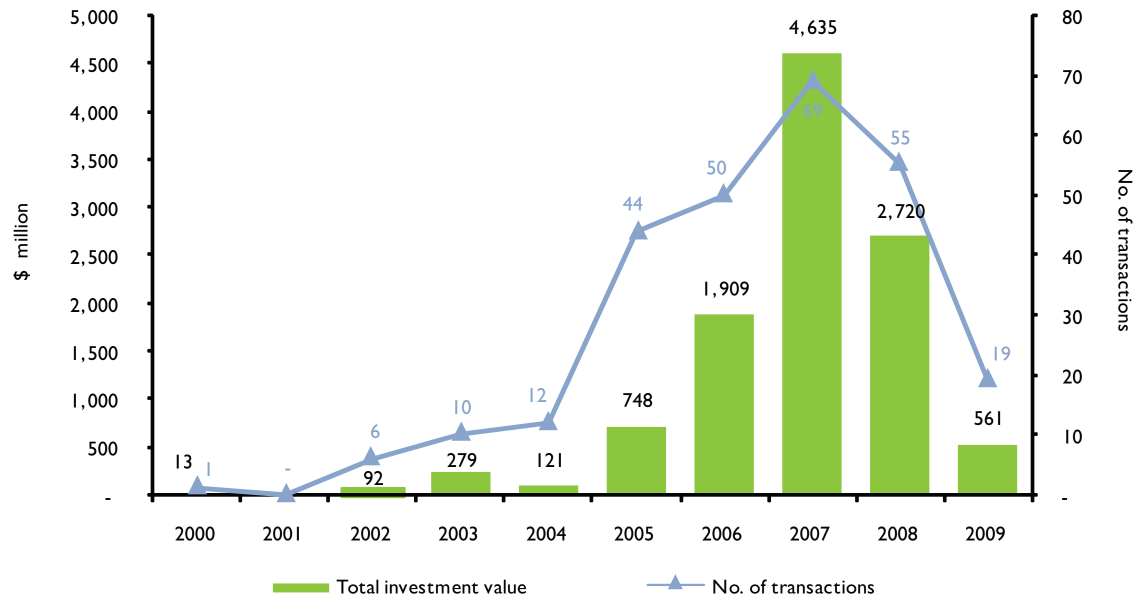
4.3.1 Information limitations

Market experts estimate between 10 and 30 percent of private equity investments remain unannounced. Furthermore, some PE houses have not revealed the size of their investments, casting further limitations on the information available. Approximately 14 percent of the announced transactions over the last decade have not publicly disclosed their size. In many cases, transaction size has been estimated by experts for analysis purposes only based on available market intelligence.

Further, in the absence of comprehensive information on the financing structures used by private equity houses for funding transactions, we are unable to analyse and comment on the debt/equity financing strategies used for structuring investments. Hence, deal sizes are reported as total transaction size rather than equity investment by the fund.

4.3.2 Investments made to date

PE investments in the last 10 years (2000-2009)



Source: Zawya Private Equity Monitor

Despite the supposed abundance of dry powder in the region, 2009 has seen a dramatic decline, both in total size (79 percent) and in number (65 percent) of investments with activity levels returning to those experienced in 2004/2005. This was contrary to the expectations of many industry leaders, who expected 2009 would be a stellar vintage year.

The decrease can be attributed to a range of factors such as limited availability of acquisition finance, private owners either being reluctant to sell or having higher value expectations than the stock market and a general shift of fund manager focus inwards towards portfolio management.

Top 10 PE investments in 2009

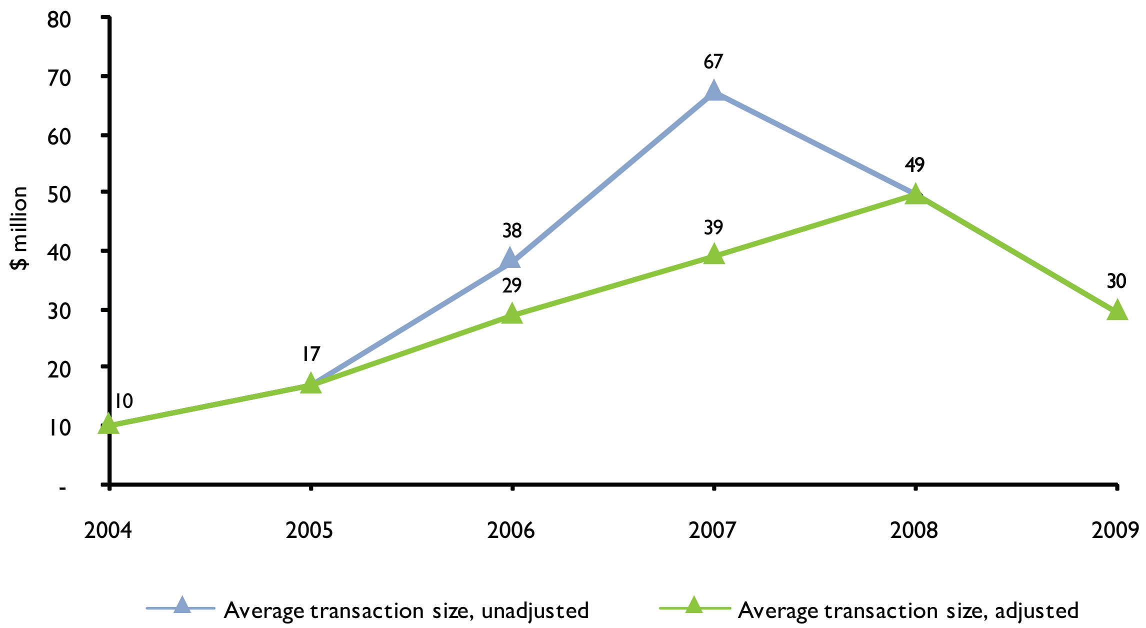
Fund	Fund size ($ million)	Target Entity	Country	Sector	Size ($ million)
Gulf Opportunity Fund I, TNI Growth Capital Fund and Eastgate MENA Direct Equity L.P.	1,454	L'Azurde	Saudi Arabia	Consumer Goods	275
Invest AD Private Equity Partners II L.P.	400	Ekol Lojistik	Turkey	Transport	67
Eastgate MENA Direct Equity L.P.	250	Sigma Pharmaceutical Industries	Egypt	Healthcare	40
MENA Transformation Fund I	80	APR Energy LLC	United States	Power and Utilities	30
MENA Infrastructure Fund	500	United Power Company	Oman	Power and Utilities	27
Millennium Private Equity Global Energy Fund	200	Kuwait Energy Company	Kuwait	Oil and Gas	23
NBK Capital- GSC Mezzanine Fund I and First Education Holding	198	Al Maaref Private School	UAE	Education	19
Intaj Capital	200	STEP	Turkey	Industrial Manufacturing	18
Gulf Capital Equity Partners II	533	TechnoScan	Egypt	Healthcare	15
NBK Capital- GSC Mezzanine Fund I	156	Kiliç Deniz	Turkey	Agriculture	15

Source: Zawya Private Equity Monitor
Note: Millennium Private Equity Global Energy Fund has been cancelled after making a close of $200 million in 2008. The fund has made only one investment which we assume was transferred to another fund

The largest transaction in the year was a 70 percent investment in the jewellery company L'Azurde jointly acquired by Investcorps' Gulf Opportunity Fund, the TNI Growth Capital Fund, and the Eastgate MENA Direct Equity Fund.

Limited access to and an increased cost of financial leverage has impaired the ability of large funds to complete major transactions in 2009 (only two transactions were greater than $50 million).

Average Transaction size



Source: Zawya Private Equity Monitor
Note: Adjustments are for Abraaj's investment in EFG Hermes in 2006 ($501m) and Abraaj Infrastructure and Growth Capital Fund, Egyptian Fertilizers Company Transaction ($2bn)

After excluding the distortionary impact of the two major investments in 2006 and 2007, the average (adjusted) transaction size decreased for the first time in 2009 to approximately $30 million (from $49 million in 2008). The average size of all transactions over the last decade was approximately $42 million ($32 million after excluding the major transactions above).

Percentage stake acquired in PE investments										
	2005		2006		2007		2008		2009	
	Deal size	Number	Deal size	Number	Deal size	Number	Deal size	Number	Deal size	Number
Less than 10%	*38.9%*	*46.7%*	*17.1%*	*36.4%*	*8.7%*	*24.6%*	*5.1%*	*6.3%*	*5.8%*	*22.2%*
10% to 24%	*36.7%*	*30.0%*	*12.5%*	*27.3%*	*11.8%*	*28.1%*	*7.7%*	*25.0%*	-	-
25% to 49%	*15.1%*	*20.0%*	*58.0%*	*21.2%*	*12.0%*	*22.8%*	*59.7%*	*40.6%*	*18.6%*	*33.3%*
50% to 100%	*9.3%*	*3.3%*	*12.3%*	*15.2%*	*67.5%*	*24.6%*	*27.5%*	*28.1%*	*75.6%*	*44.4%*
Total	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

Source: Zawya Private Equity Monitor

Unlike their global counterparts, regional PE firms have traditionally focused on a growth capital model, predominantly taking minority stakes. This model has been most attractive for a number of reasons, including the growth of economies in the region generally, the prevalence of family businesses who have had access to financial leverage and are reluctant to relinquish control and the relatively nascent PE industry.

However, from 2007 the buyout model appears to have gained some traction in the region with a greater proportion of majority stakes being taken, particularly during years of inexpensive and readily available acquisition finance. It is expected that this model increases its share in the downturn as demonstrated in the table above, especially in the small to medium segments where the lack of acquisition finance is not critical for transacting.

Vikas Papriwal

Country Head for PE and SWF, KPMG in the UAE

Peril and Private Equity – the imperative for GPs to manage opportunity and risk

In the wake of the global recession, the private equity industry is facing enormous challenges; GPs must work harder than ever with portfolio companies to create and realise value; debt markets remain uncertain; and many LPs are facing their own liquidity issues. Why then would responsible investment, or Environmental, Social and Governance ("ESG"), be on the agenda at all? A recent KPMG survey of 50 LPs worldwide set out to answer this question.

Private equity has been widely criticised and perceived to focus purely on financial return with little regard to wider stakeholders. The key message from the survey was that, despite often being passionate about ESG opportunities and risks, Investors are generally confused as to the steps being taken by GPs to address these issues. Investors do not feel they know enough to make informed decisions and GPs do not have the information available to report. As a result, both are at risk reputationally and commercially.

The correlation between ESG management and fund performance is becoming increasingly apparent as it promotes long term sustainability and addresses the associated value at risk. One notable response to the survey stated "we want to be sure that GPs we commit to are investing from a risk-adjusted perspective, not just a return perspective".

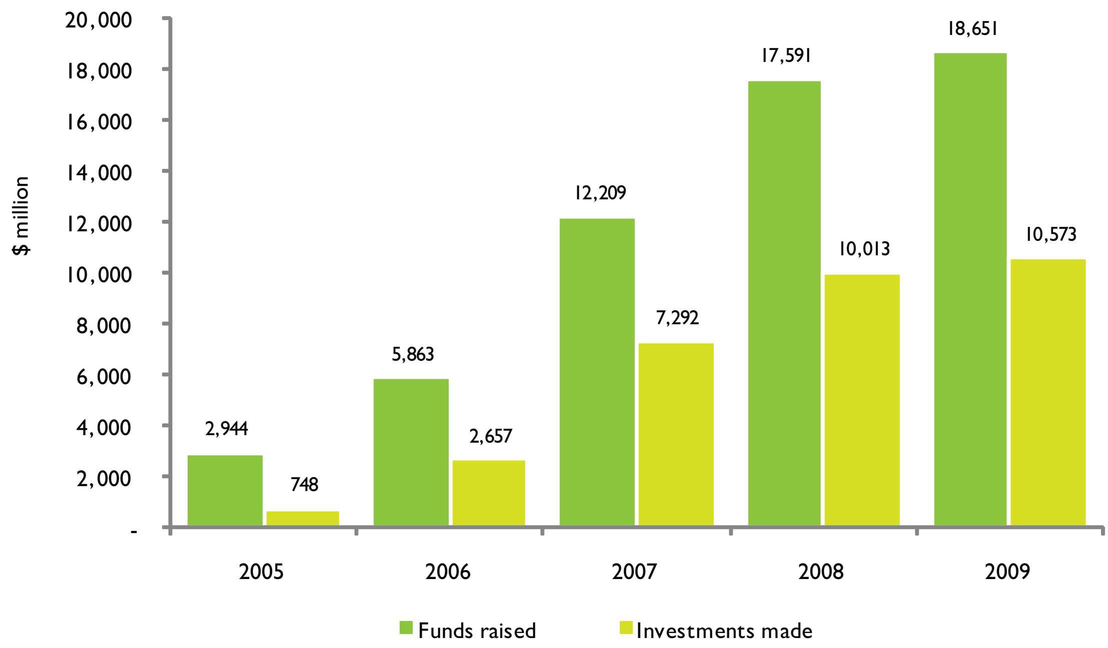
Not surprisingly, the survey found that ESG and risk information was most sought after by investors, ahead of more frequent and efficient communication and over two thirds of investors consider embedding risk in decision-making as the top risk management priority. Furthermore, nearly half the respondents rated a GP's approach to ESG risk management as "important" or "very important" in deciding whether to invest in a fund and nearly three quarters said they would seriously consider investing more money in private equity if GPs were able to demonstrate a strong risk management approach.

In our view, GPs should incorporate risk management into all disciplines, from investor relations and deal origination to portfolio management and exit. As one respondent wrote, "My role is to care about the investment process so I need to know why something is a material risk and how a firm intends to act on that information". On the other hand, a GP's role is to deliver long term value in the context of a multitude of stakeholders. In the current environment, that means blending the three outcomes of commerciality, sustainability and responsibility, which requires that ESG risk management be genuinely embedded in their organisations.

Losses caused by excessive leverage or from investing at the height of the boom have meant that many investors have become disenchanted with their fund managers. A focus on managing ESG opportunities and risks will enable GPs to address key concerns of their investors and will no doubt assist in their efforts to achieve efficiencies and performance improvements in their own portfolios.

4.4 Deployment of funds

Cumulative funds raised and investments made since 2005



Note: The graph above has the following limitations:
- Funds raised represents committed capital and does not distinguish amounts called
- Investments made do not take into consideration any level of debt financing which, one can only assume, would widen the gap further
- It does not account for management fees which can be in the range of 10-20% of committed capital over the life of the fund.
Source: Zawya Private Equity Monitor

When considering deployment analysis, it is important to note the limitations referred to above. Depending on the extent to which fund managers are able to successfully call on the amount of funds raised as well as the level of debt used in transactions to date, the actual amount available for deployment may vary. Nevertheless, it appears that the fund raising cycle is running well ahead of the deployment cycle in the MENA region. The amount available for deployment can be roughly estimated at $8.1 billion.

Fund deployment summary (top 10 funds by investments)

	Fund size ($ million)	Transaction size ($ million)							
		2003	2004	2005	2006	2007	2008	2009	Total
Abraaj Infrastructure and Growth Capital Fund	2,000	-	-	-	-	2,909	1,002	-	3,911
Abraaj Buyout Fund II	500	-	-	-	250	663	325	-	1,238
IDB Infrastructure Fund L.P.	981	245	34	211	86	73	-	-	649
Swicorp Joussour Fund	712	-	-	-	-	485	62	-	547
Intaj Capital	200	-	-	19	150	85	203	18	475
Global Buyout Fund L.P.	610	-	-	-	-	251	185	-	436
Global Opportunistic Fund I	550	-	-	161	271	-	-	-	432
Global Opportunistic Fund II	306	-	-	-	102	80	129	-	311
Amwal Fund I	267	-	-	175	97	-	-	-	272
Amwal Fund II	267	-	-	-	36	230	-	-	266
Top 10 funds by investment		245	34	566	992	4,775	1,906	18	8,536

Source: Zawya Private Equity Monitor
Note: Transaction size includes debt and equity

Ahmad M. AL-Sari

Executive Partner,
Malaz Group

Venture Capital in Saudi Arabia: Latest updates and future trends

The panel discussion on banking at the Euromoney Conference on Saudi Arabia on May 18, 2010 included Abdulkarim Abulnasr, CEO of the National Commercial Bank. In his response to criticism of banks for their tightening of credit and causing harm to development projects and small and medium enterprises, he pointed out that banks have a fiduciary responsibility to care for depositors' funds and manage related risks but he also pointed out the need for other forms of financing including "venture capital". This was, of course, music to my ears as a VC professional. It is a sign of the growing awareness of venture capital as a necessary tool to support the survival and growth of small and medium enterprises and the development of entrepreneurship and innovation in the country, in general.

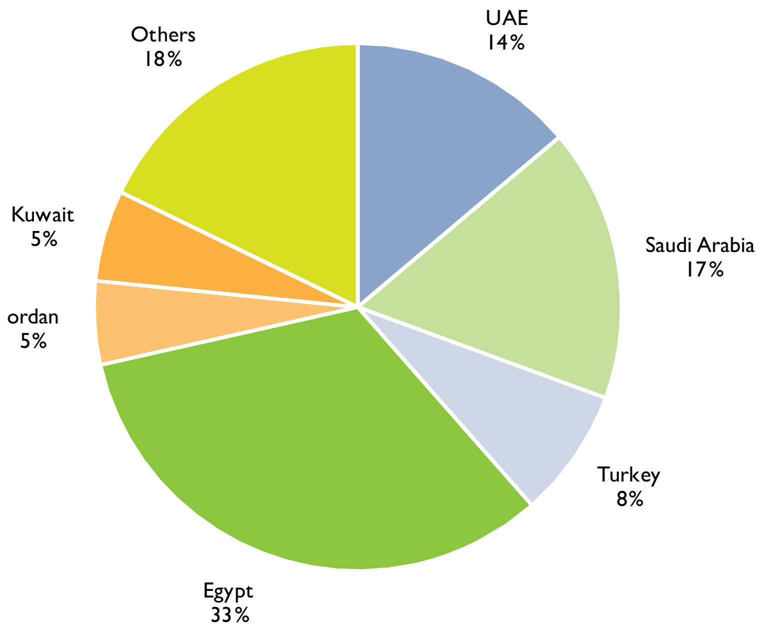
There is a quiet revolution taking place in Saudi Arabia that you can observe through connecting many dots such as:

- Growth in the number of universities from 9 to 30 in a short space of time
- Creation of new economic cities with attractive incentives to investors
- Springing of techno valleys across the country along with incubators and related government financed companies
- The proliferation of incubators across Saudi Arabia
- The National Science & Technology Plan
- The National Information & Communication Technology Plan
- Recognition of Knowledge-based industries by the Ministry of Commerce and Industries for industrial licenses
- The emphasis in the 5-year development plan on the need to support of small and medium businesses
- The fast climb of Saudi Arabia up the ranking of competitiveness among nations

But while all the above is pointing us in the right direction for the development of a robust innovation system and a knowledge economy, venture capital has yet to see its day. The reason is that attention has so far gone to launching start ups and has not moved to their growth financing needs. This is the death-valley that growing companies need to cross and where venture capital is vital, as companies are not yet qualified for debt-based financing. SMEs are crying for any form of growth financing. But as banks are averse to taking risk with SMEs, private investors are also unfamiliar with venture capital and are reluctant to place funds in VC funds. The government has developed debt-based financing in support of SMEs. The bulk of these programs offer relatively small loans against personal guarantees with practically no other form of support. The situation calls for a serious and concerted effort to develop the venture capital industry and for the government to take the lead by providing the funds to help create it. The good news is that the government is taking note and the hope is that it will move to act with speed.

4.5 Regional focus

Regional split of cumulative PE investments since 2005



Source: Zawya Private Equity Monitor

Since 2005 Egypt, Saudi Arabia and the UAE have led MENA region in terms of private equity investments. Egypt, aided by Abraaj's $2 billion acquisition of Egyptian Fertilizers Company in 2007 and the $501 million investment in EFG Hermes in 2008, has been the most popular destination for private equity, accounting for $3.5 billion in investments from 30 transactions since 2005.

By number of transactions, Egypt is ranked third after the UAE (56) and Saudi Arabia (33) which each accounted for $1.7 billion and $1.5 billion in investments since 2005, respectively.

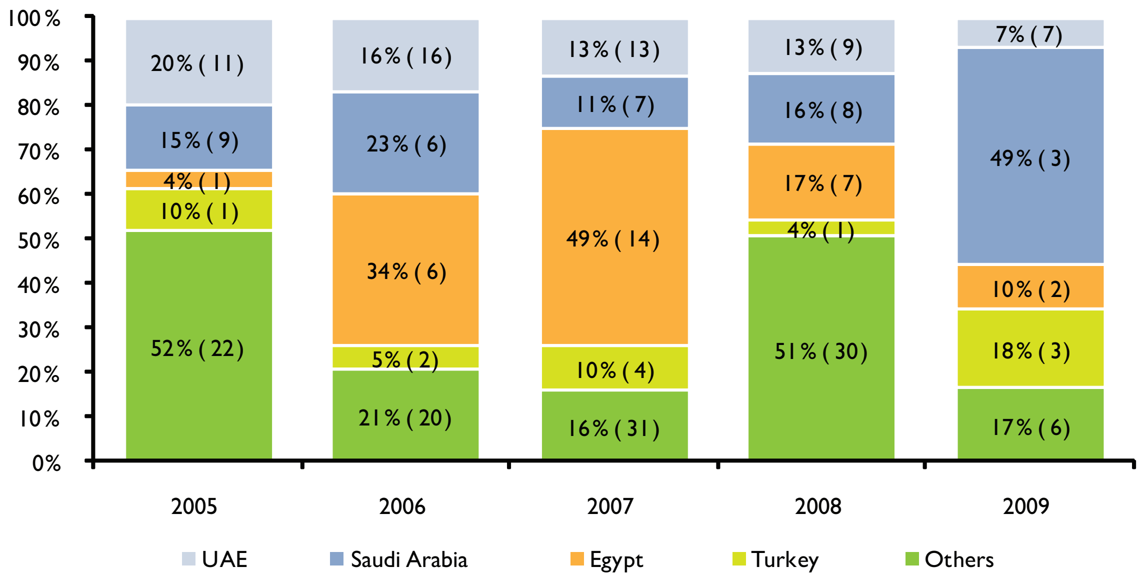
Turkey, Jordan and Kuwait have also been popular locations, with $839 million, $541 million and $591 million in investments each since 2005.

Target company	Sector	Fund name	Year	Transaction size ($ million)
Egypt				
Egyptian Fertilizers Company	Industrial Manufacturing	Abraaj Infrastructure and Growth Capital Fund	2007	2,000
Orasinvest	Telecommunications	ADIC MENA Partners, LP	2008	180
Al Borg Laboratories	Healthcare	Abraaj Infrastructure and Growth Capital Fund	2008	151
Maridive and Oil Services	Construction	Horus Private Equity Fund III	2007/2008	91
Saudi Arabia				
L'Azurde	Consumer Good	Gulf Opportunity Fund I , East Gate MENA Direct Equity LP and TNI Growth Capital Fund	2009	275
National Air Services	Transport	Abraaj Buyout Fund II	2006	250
Tadawi	Healthcare	Abraaj Buyout Fund II and Infrastructure & Growth Capital Fund	2008	214
Eastern Petrochemical Company	Oil and Gas	Swicorp Joussour Fund	2007	175
National Industrialization Company	Oil and Gas	Swicorp Joussour Fund	2007	133
Al Sawani Group	Retail	Global Opportunistic Fund I & II and Global Buyout Fund LP	2005/2008	128
Turkey				
Acibadem Healthcare Group	Healthcare	Abraaj Infrastructure and Growth Capital Fund, Abraaj Buyout Fund II and co-investors	2007	575
Fon Finansal Kiralam A.S.	Financial Services	Global Buyout Fund L.P.	2007	120
TAV Airport Holding Company	Transport	IDB Infrastructure Fund L.P and Global Opportunistic Fund II	2006	104
TVK Shipyard	Transport	The Carlyle Group MENA Fund	2008	100

Source: Zawya Private Equity Monitor

In 2009, the L'Azurde investment in Saudi Arabia accounted for $275 million (49 percent) of the $561 million invested by MENA funds. Turkey and Egypt also appeared as popular locations, together accounting for $155 million in investments in 2009 and seven of the 19 transactions related to the UAE.

Regional concentration of PE investments 2005-2009 (by deal size)



Source: Zawya Private Equity Monitor
Note: Figures in brackets represents the number of transactions made by private equity each year

Factors contributing to the appeal of Saudi Arabia, Egypt and Turkey include large and fast-growing populations, strong local demand, resilience to the global financial crisis and government plans for large scale investments in transport and infrastructure.

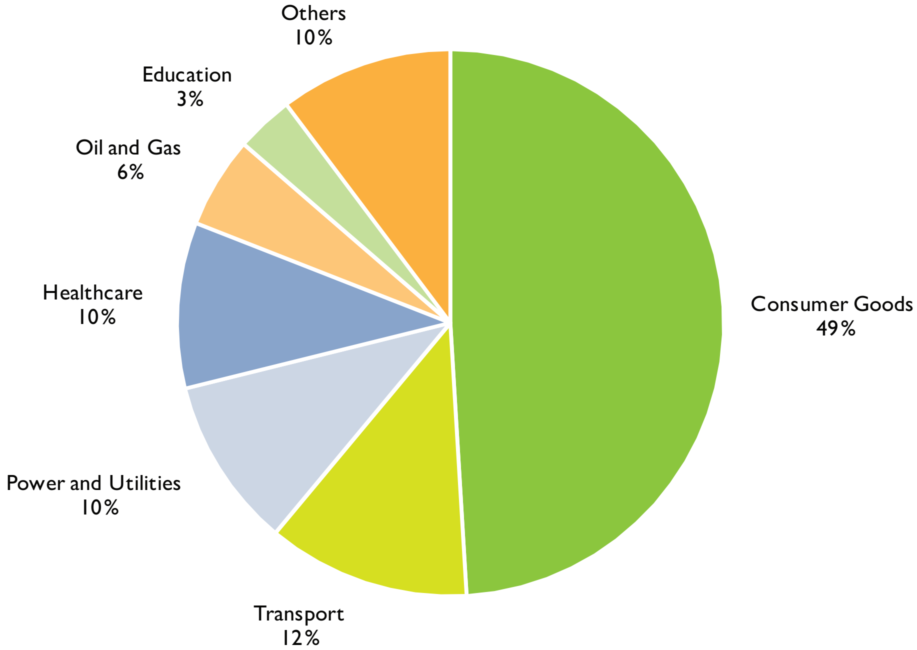
Saudi Arabia has gone up as a destination for private equity investments from the fourth position in 2006 to the first position in 2009 by value of investments.

It is worth noting that UAE, in terms of transaction size, has fallen from first place in 2005 to fourth place this year as the economic activity in the second largest Arab economy abated with average transaction size significantly falling from $37 million in 2008 to $5 million in 2009. However, the UAE is expected to remain amongst the top destinations given its economic size and dynamism.

The largest economies of the region – Saudi Arabia, UAE, Egypt, and Turkey are expected to continue to lead in the coming years.

4.6 Sector focus

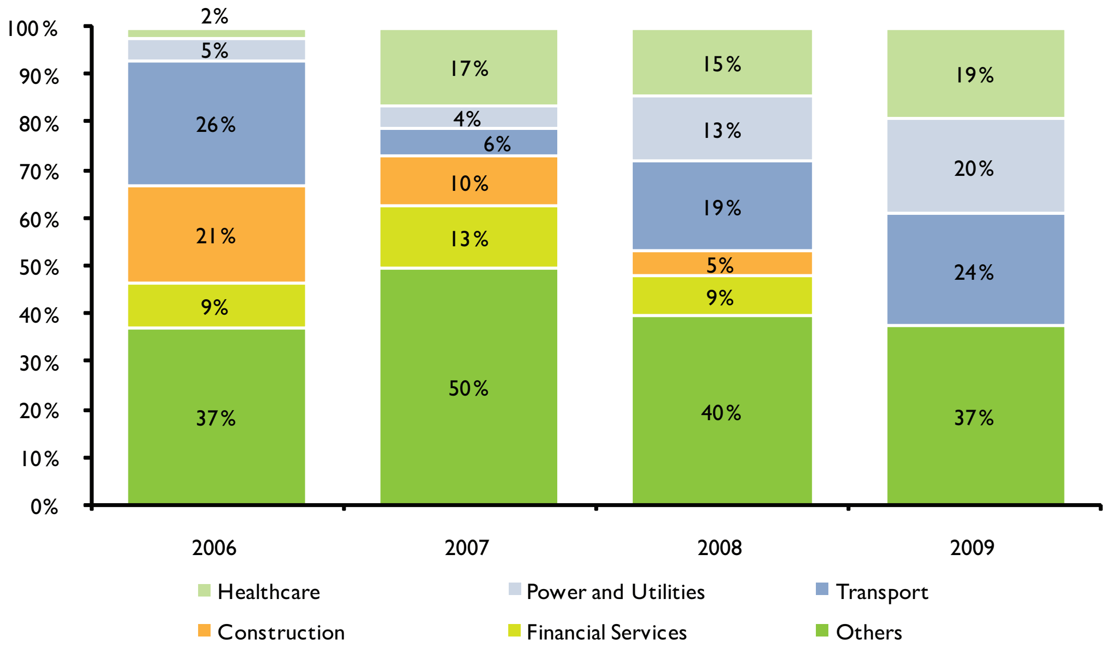
Sector split of PE investments 2009 (by deal size)



Source: Zawya Private Equity Monitor

Based on investment size, the most dominant sector in 2009 was consumer goods, accounting for $275 million (or 49 percent) of the total investments for the year owing to the impact of the club deal in the jewellery company L'Azurde.

Sector concentration of PE investments 2005-2009 (by deal size)



Source: Zawya Private Equity Monitor
Note: The above graph excludes the following one-off investments:
- $501 million investment in EFG Hermes in 2006
- $2 billion investment in Egyptian Fertilizer Company in 2007
- $275 co-investment in jewellery company L'Azurde in 2009

After excluding the distortionary impact of major one-off investments, the proportion attributable to sectors such as transport, power and healthcare has increased in recent years.

Whilst on a global scale the transport sector has been adversely affected by the economic slowdown, in MENA the sector has benefited from the region's strategic positioning as well as government initiatives to improve regional infrastructure and logistics.

The impact of the global financial crisis has meant a significant decrease in investments in construction and financial services in the region as PE funds focus their strategies on non-cyclical, resilient sectors.

The focus on the power and utilities sector in the region in recent years is primarily owing to the demographic and economic prospects coupled with government initiatives for major energy investments such as renewables. Population increases as well as economic growth will result in increased demand for power and electricity, to which the industry will need to respond.

The MENA region has a fast growing middle class sector with strong purchasing power and therefore the healthcare sector is considered to offer attractive upside as demand increases as well as resilience to any economic downturn. Other factors to consider are increased longevity, unhealthy diets and less active lifestyles. A notable transaction in healthcare in 2009 was Eastgate's investment in Sigma Pharmaceuticals, a generic medicines producer in Egypt.

A Transformational Year for Investing in SMEs

Khaldoon Tabaza

Riyada Enterprise Development, a member of the Abraaj Group

2009 was a tough year for the global private equity industry and the Middle East was no exception. For those of us into smaller investments in emerging growth companies, it was in fact a positive inflection point, a platform year for investing in small and medium enterprises (SMEs) across the region. In 2009, 11 SME-fund investments were announced out of a total of 30 private equity-fund investments, firmly establishing this segment as key in the overall investment landscape in the region.

Much has been said about the importance of SMEs in the Middle East, including their crucial role in job creation, economic diversification, efficiency improvement, and their power to transform economies and societies. SMEs underpin the economies of the MENA region, accounting for roughly 71 per cent of all employment and 28 per cent of GDP (or a much greater percentage if oil and gas is excluded). Real progress, however, has been slow. Budding companies and entrepreneurs still have very few choices for institutional sources of finance and support to grow their businesses.

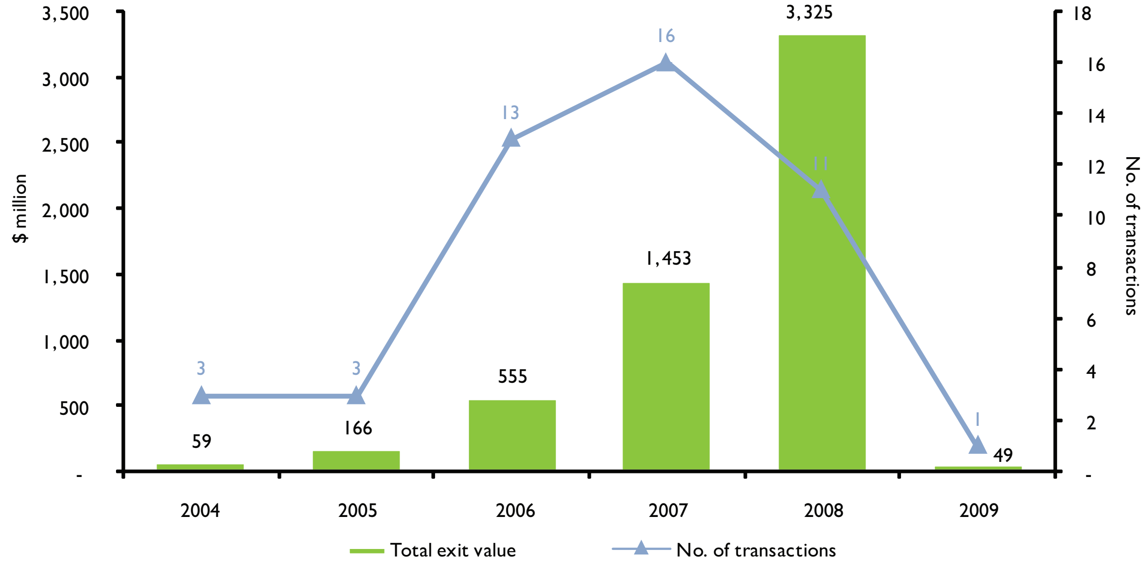
In some ways, 2009 was a perfect storm. Several forces collided. Fundraising and deal-making in the traditional private equity industry slowed, both regionally and internationally. Governments across the Middle East felt an increasingly pressing need to launch new programmes and initiatives to encourage SME growth. And finally SME success stories made more and more headlines across the region.

To boot, the brew took place amid a new environment in our region. The Middle East today is, in many respects, a very different place from even a few years ago. Economies are more inter-dependent and less dominated by the state, talent flows more easily across borders, and, generally speaking, legistation for both investors and investees is more sophisticated. The connected generation, has come of age and is now influencing the business community. Today's younger generation is more influential, more globally minded, both consuming and creating knowledge-based products and services. Combined, all this is creating greater opportunities for SMEs and a more sizeable market in this field.

As supply of funding and strategic support starts to match demand, the Middle East is reaching a tipping point where the SME industry becomes a key driving force in economic growth, as well as a source of success and wealth-creation for investors and entrepreneurs. Building on the drivers of growth in the region, SMEs will play an increasingly important role in transforming economies, and setting the scene for the next phase of regional growth and prosperity. For private equity, this is a great opportunity

4.7 Exits and IRR

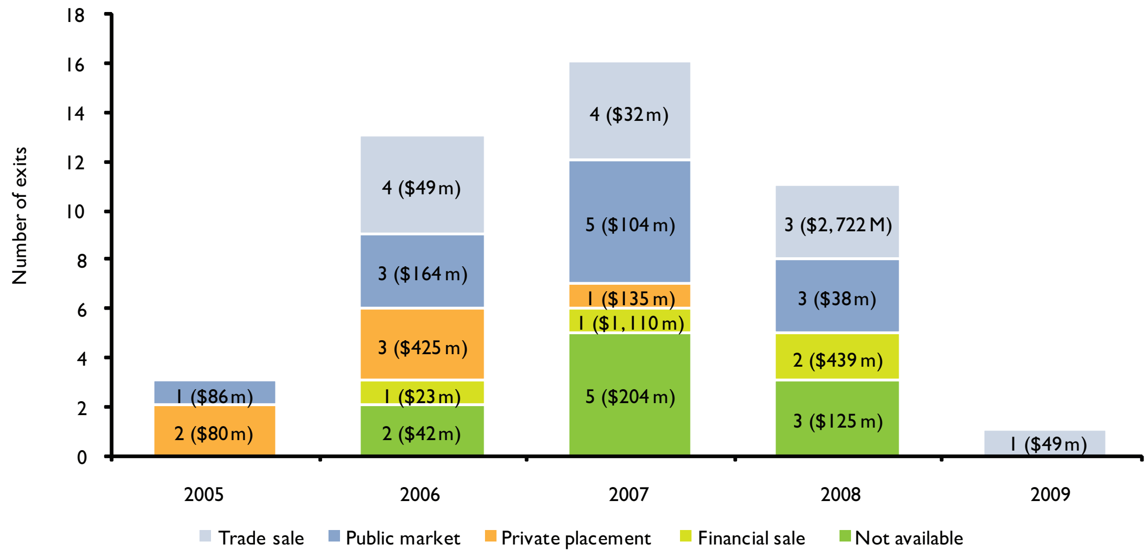
PE exits in the last 6 years



Source: Zawya Private Equity Monitor

The significant decrease in multiples and lack of stock market liquidity has significantly restricted exit opportunities for the industry. Accordingly, there was only one recorded exit in 2009, the trade sale of Reliance Petroleum by the Global Opportunistic Fund II for a value of $49 million against a purchase price of $33 million.

Number of exits by type



Source: Zawya Private Equity Monitor
Note: "Not available" refers to 11 exits with a total transaction value of $371 million for which sell type is not available

Historically, the most popular exit options have been public market offerings and trade sales. However, both avenues are expected to remain challenging in the coming year.

David Burlison

Country Head of Restructuring, KPMG in the UAE

Restructuring outlook for the MENA region

Despite an abundance of commodity driven wealth, the MENA region has long ceased subscribing to the view that it is immune from the effects of the global financial crisis. A sharp correction in local real estate markets, coupled with a global down-turn in key industries has meant denial is being replaced with pragmatic acceptance as many businesses are facing impending debt maturities, liquidity issues and covenant breaches, resulting in the need to face the daunting task of refinancing or restructuring their debt.

The consequential impacts of the first restructurings in the region will soon be understood and will no doubt set a precedent for the wave of restructurings expected to follow. Despite the challenges facing the region, lenders now have a clearer picture of their balance sheets and have shown a willingness to negotiate, cooperate and act in the spirit of value preservation.

Private equity in the region may see both operational and financial restructuring requirements in their portfolio companies driven by lack of top line growth, margin contraction, reduced liquidity, as well of impending covenant breaches resulting in the potential need for equity cures. Already PE houses are focusing on operational improvements, cost optimisation, working capital and short term cash management rather than seeking avenues to exit their investments.

The MENA region presents its own challenges from a restructuring point of view, not the least of which is the fact that the local laws and practices governing insolvency are largely untested. There remains a significant degree of forecasting uncertainty which will lead to valuation debates. On top of these major challenges are a range of inter-creditor issues, complex organisational and capital structures, and political implications of government ownership.

In 2010/11, we expect a high volume of restructuring activity as loans brokered during a period of cheap and readily available debt reach maturity and are no longer available. Lenders will want to try to find consensual solutions with companies, and will want to avoid insolvencies given their erosive effect on value. Their support, however, will not be unconditional; they will want to make sure that the proposed restructuring is viable, that it improves the lenders' position over time, and will also demand a suitable financial return for their support.

A key focus for all businesses in the year to come should be an open line of communication both with existing and new lenders. The sooner a business engages with its lenders regarding a future refinancing or potential issues around covenants, the more chance they will be supported. The role of Restructuring professionals at this time can be an important one, from advising on crisis cash management, to developing turnaround strategies and evaluating restructuring options. Not only do they have the situational experience necessary to help guide management and boards through the restructuring process, they can also assist with the interaction with Company lenders to help find the middle ground in order to get a deal done.

5 Survey of GPs of the MENA region

5 Survey of GPs of the MENA region

5.1 Introduction

The fourth regional survey by the GVCA focuses on the GPs in the MENA region. The survey included 38 questions and was conducted in one week from 8 to 16 May 2010 with the same aim as in last year's survey of obtaining a greater understanding of the private equity environment in the MENA region from the GPs perspective as well as an understanding as to how the impact of the continuing economic turmoil is perceived by the key players in the region.

Methodology

The Survey prepared by Zawya, was conducted online by representatives from 25 private equity houses in the MENA region (including the top 10 PE houses based on funds under management). The firms surveyed have investments in a breadth of industries with a wide geographical reach.

Scope of the survey

The survey addresses the effect of the crisis on both funds and investment performances in 2009 as well as the outlook for 2010. Scope of the survey is similar to the survey completed last year.

5.2 Highlights

Key headlines that can be drawn from the results are discussed below:

Profile of respondents

Most of the participants established their firms within the last 5 years and as such, their funds remain relatively young, compared to their counterparts in the US or Europe. Despite this, 40 percent of respondents claimed to have assets under management exceeding $500 million.

The impact of the financial crisis in 2009

Responses vary as to the impact of the financial crisis in 2009. 28 percent believe that their portfolio companies were not affected, whilst 32 percent stated that it has adversely impacted volumes and margins. Other popular responses were delayed/cancelled investments, and delayed /cancelled IPOs.

The majority of respondents believe that the reduction in deals during 2009 was due to high valuations and the lower amount of leverage available. 64 percent disagreed that the lack of deals was due to LPs being unable to meet capital calls.

Future Outlook

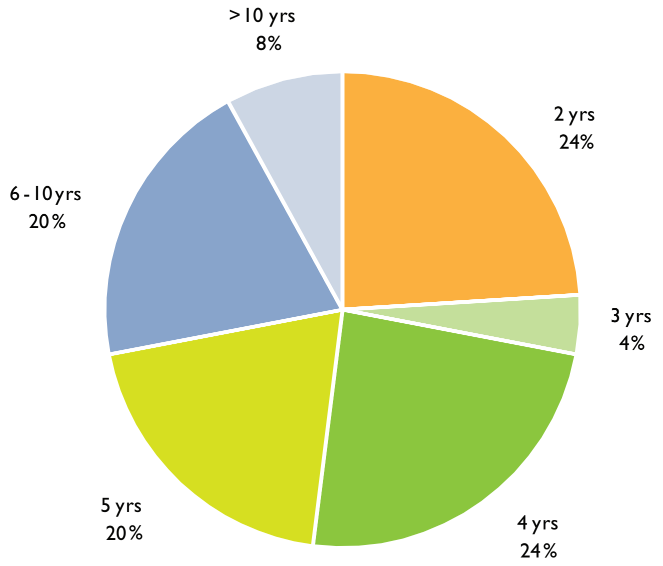
Although the majority of respondents (72 percent) believe that the economic situation will improve and fund raising expectations appear promising, IRR expectations have decreased from prior years to reflect the challenges the industry is expected to face both in raising and servicing debt and in creating and realising value from investments during a time of economic uncertainty.

5.3 Survey results

1. Respondent Profile

When was the company established?

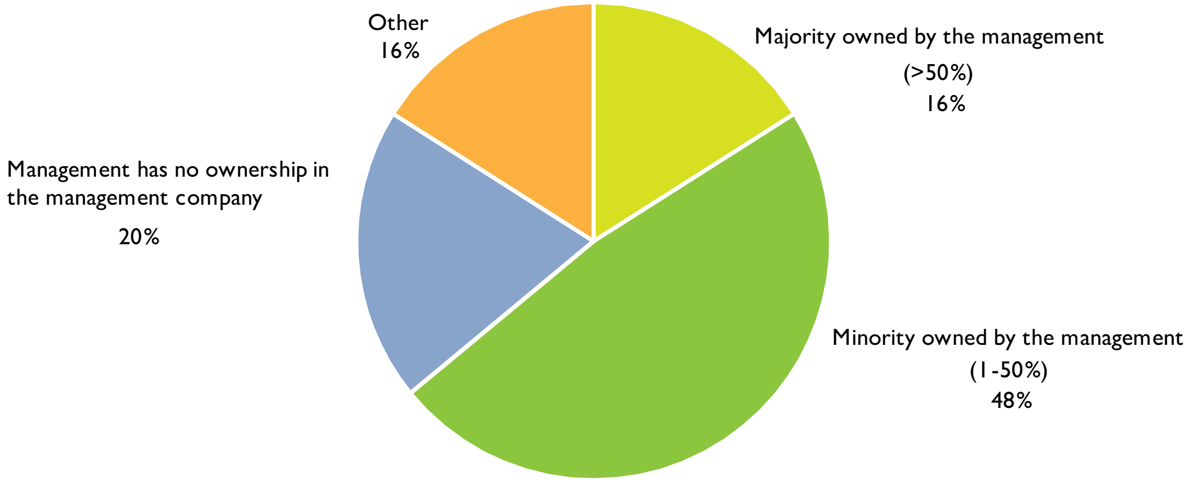
Companies age



The industry in the MENA region is still relatively nascent compared to the US and Europe with 72 percent of firms established within the last five years.

Who owns the fund management company?

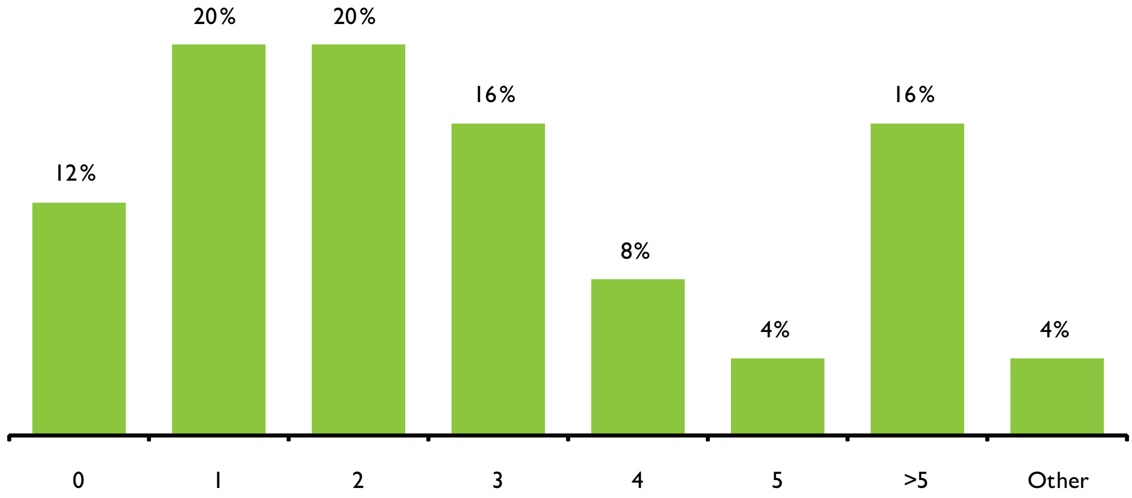
Ownership of fund management company



64% (16) of respondents stated that management has some ownership in the fund management company.

How many funds have you managed since establishment?

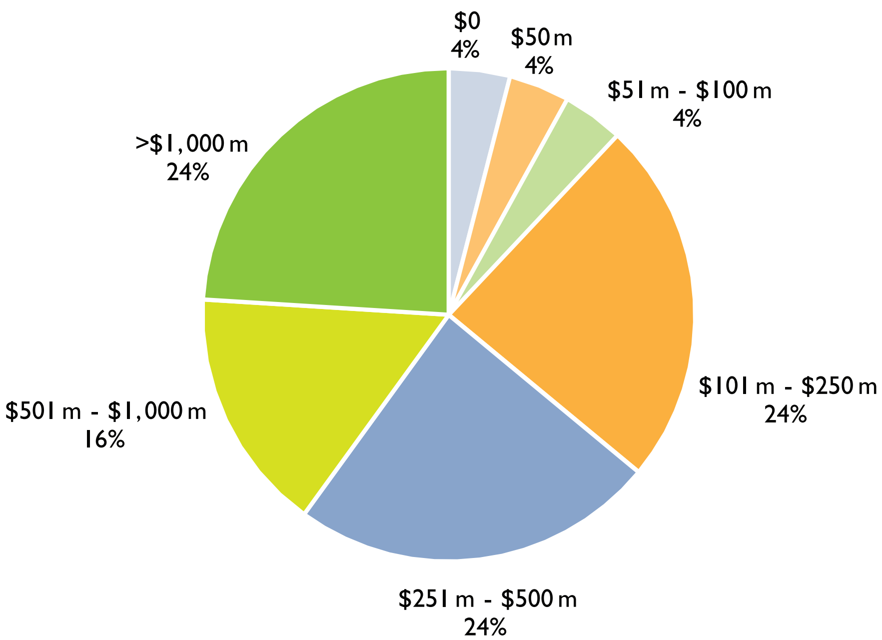
Number of funds managed since establishment



Given the relative infancy of the industry in the region, it is not surprising that only 16 percent have managed more than five funds since establishment. More than half of the respondents have managed between one and three funds and three respondents (12 percent) are presumably yet to make their first close.

What are the total assets under management?

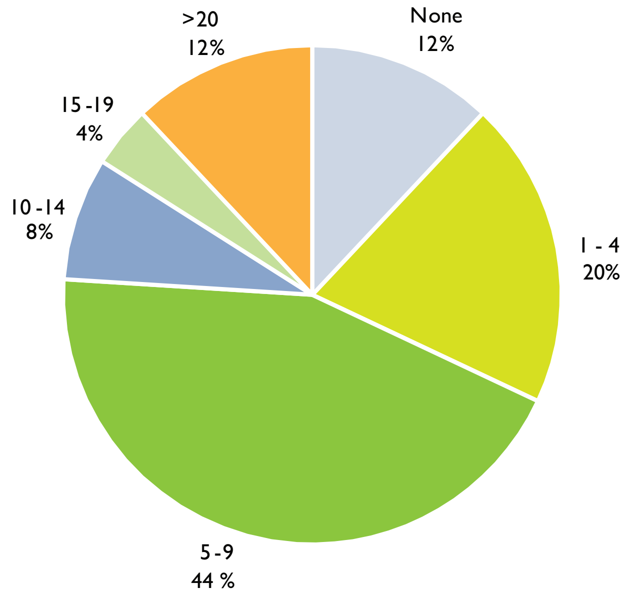
Total assets under management



Ten managers (40 percent) have assets under managements worth more than $500 million with 6 (24 percent overall) of these exceeding the $1 billion mark. One manager in the current year had no assets under management indicating that they have not made any investments.

How many companies are in your portfolio?

Companies in portfolio

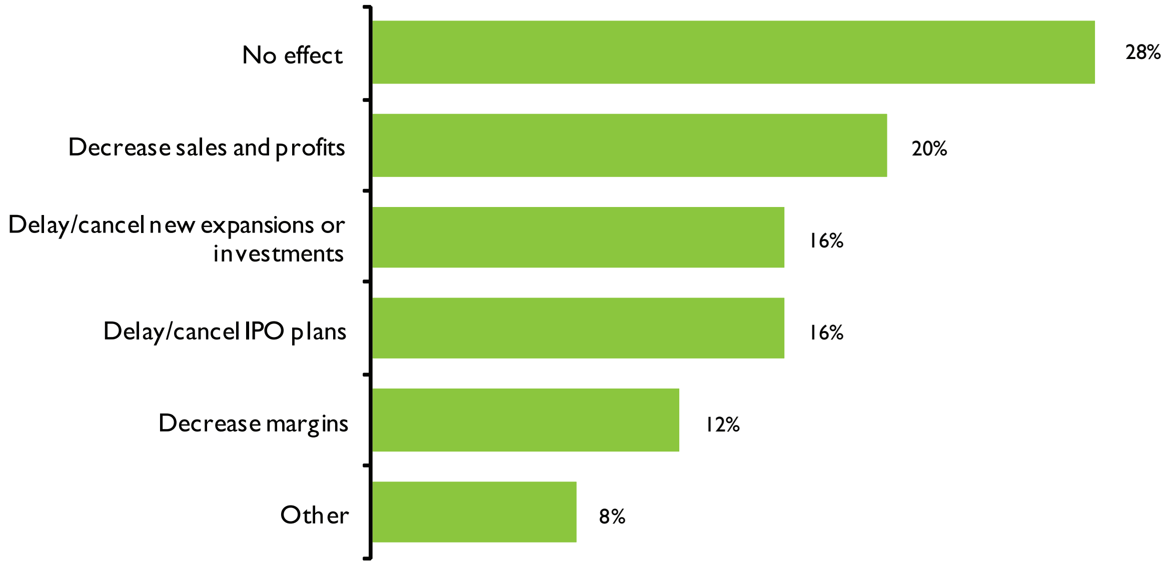


The majority of respondents have fewer than 10 companies in their portfolio and three respondents (12 percent) have more than 20 companies which may be the result of a legacy of growth capital investments.

2. The impact of the financial crisis in 2009

How did the economic turmoil affect your portfolio companies?

Effects on portfolio due to economic turmoil



There has been a significant shift in the perceived impact of the financial crisis with 28 percent of respondents stating that the economic turmoil has had no effect on their portfolio in 2009, compared to only 11 percent in the previous year.

32 percent (eight) of respondents believe that the economic conditions adversely impacted sales, margins and ultimately profits. Fund managers have had to reassess their strategies with 16 percent of respondents having delayed or cancelled new expansions or investments due to the economic situation.

The lack of investor confidence in global equity markets and the related slump in stock market prices are probably some of the reasons why 16 percent of respondents have delayed or cancelled their IPO plans.

Other notable responses relating to the impact of the financial crisis in 2009 are as follows:

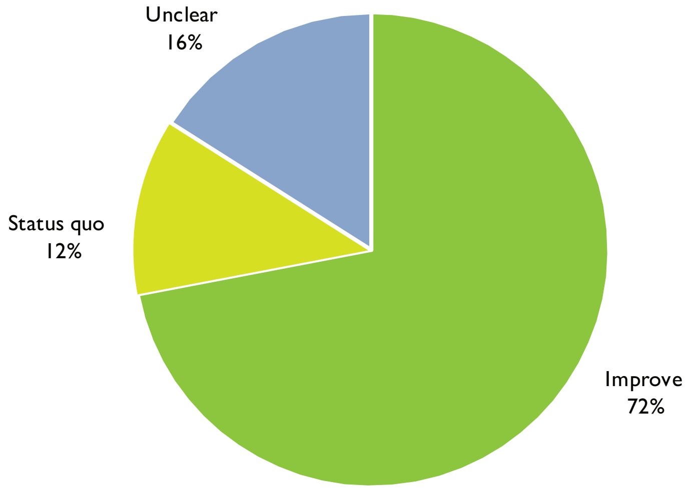
- 64 percent of respondents have not changed their IRR expectations
- More than half the respondents agree that the reduction in number of deals was due to lower leverage (i.e. a scarcity of acquisition finance).
- 56 percent of respondents agree that higher valuations led to a lower number of deals in 2009. However, 36 percent of respondents believed that entry multiple were realistic during 2009, with only 28 percent stating that they were high.
- Interestingly, 64 percent of respondents disagreed that the lack of deals in 2009 was due to LPs being unable to meet capital calls.

3. Next year

Participants were asked to express their opinion about the future of private equity in the MENA region. Respondents have a positive outlook relating to fund raising and general economic conditions but have adjusted their IRR expectations to reflect the many challenges facing the industry. Furthermore, 76 percent of respondents believe that there will be less than 10 entry deals made in 2010 primarily due to a lack of leverage.

Do you expect the economic situation to: (Improve/Decline/Status quo/Unclear)?

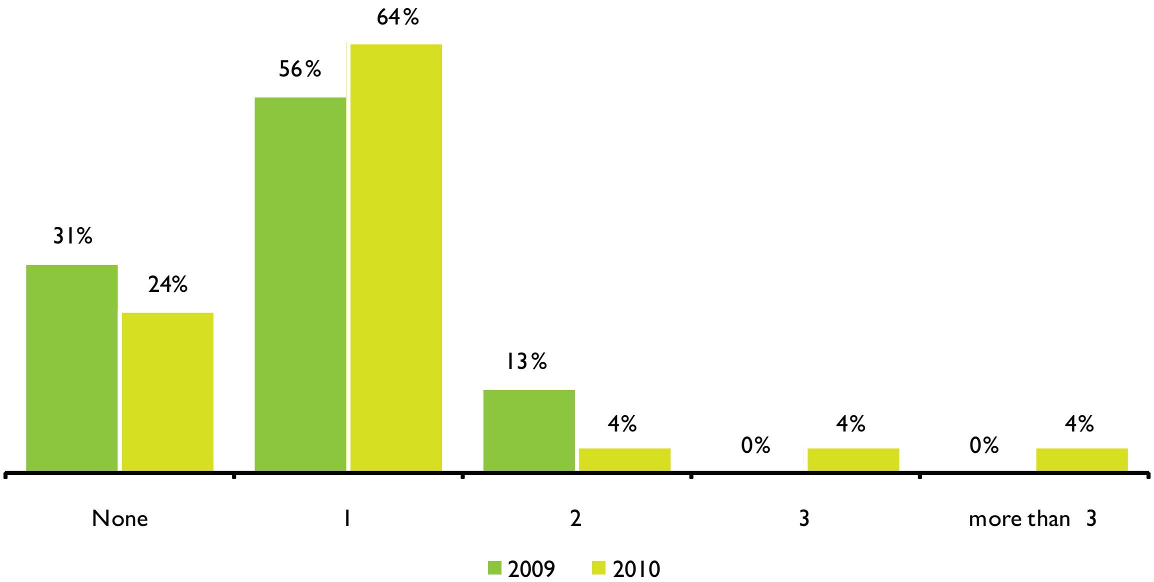
Expectations on economic situation



No respondents believe that the economic situation will decline

How many funds will you launch in the next year?

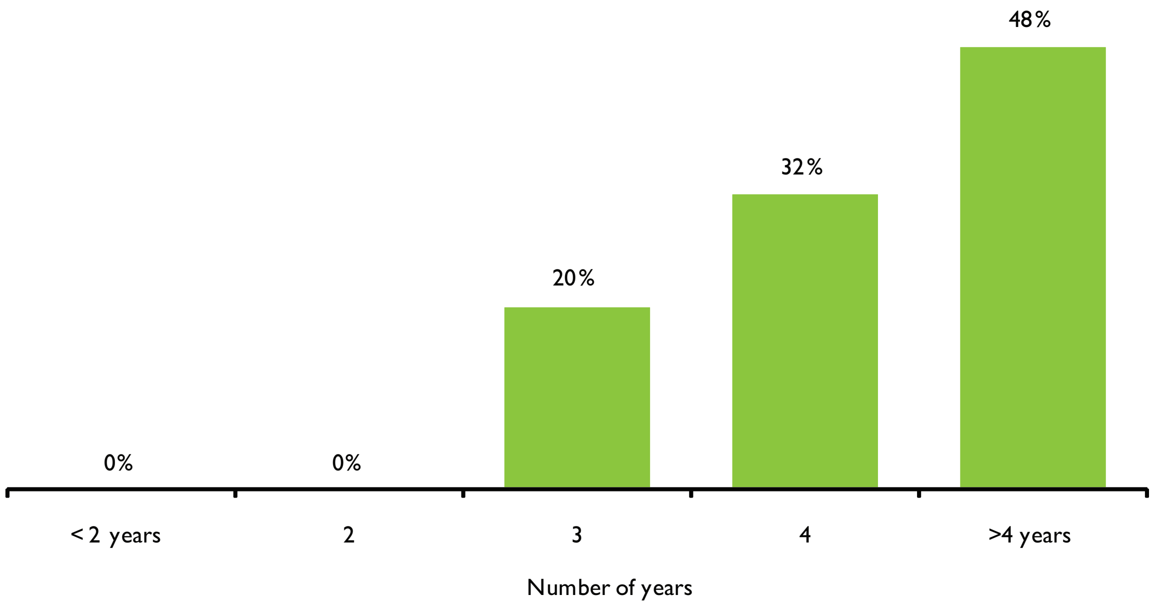
Funds to be launched in the next year



Compared to last year, respondents are more positive regarding fund raising in the coming year, with a decline in the percentage of those who are not planning to launch any funds and an increase in PE houses planning to launch multiple funds in 2010.

In your opinion, what will be the holding period of investments made by PE firms?

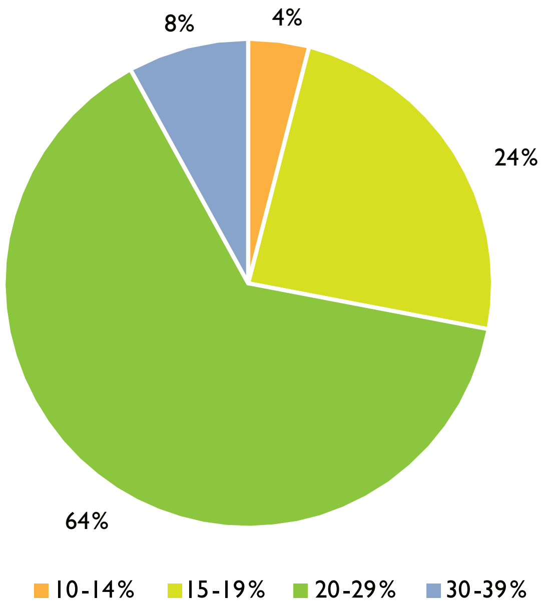
Planned holding period of investments



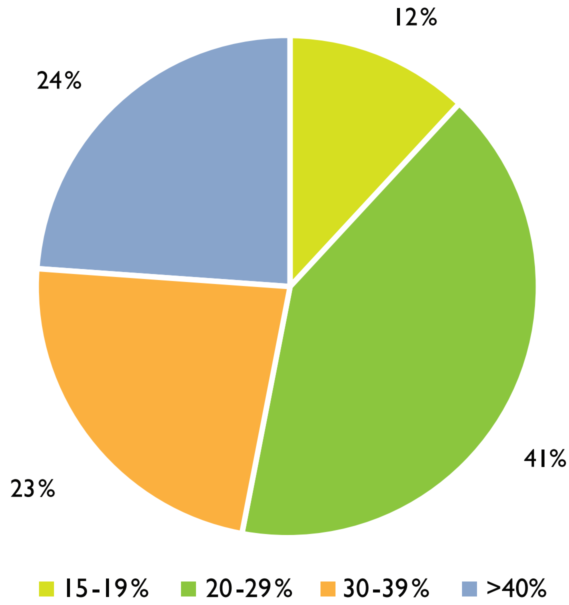
The majority of the respondents expect a holding period of at least four years, with the remainder stating a minimum of three years. This has increased from previous years and is the result of fund managers having to extend their investment horizon due to a lack of exit options.

What will be your target IRR in 2010?

Target IRR by respondents in 2010



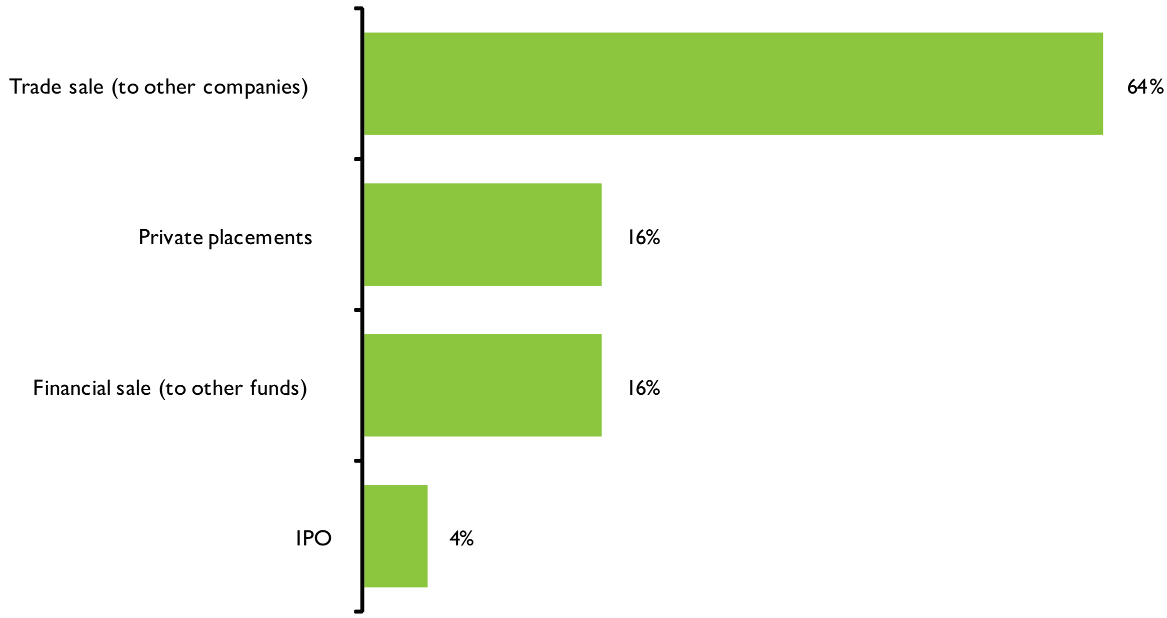
Target IRR by respondents in 2009



There has been an adverse shift in expectations from last year with 28 percent of respondents targeting IRRs of less than 20 percent in 2010, compared to only 12 percent of respondents in 2009. The decrease in IRR expectations is likely due to fund managers having digested the economic reality of the challenges facing the industry going forward.

What will be the most attractive exit routes during 2010?

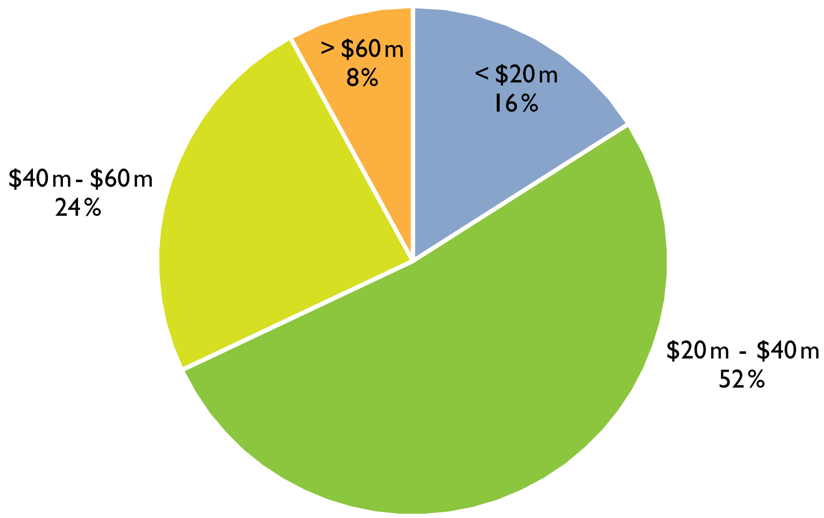
Attractive exit routes during 2010



Trade sales continue to be the most attractive exit option. Although it is anticipated that there will be few exits in 2010 as it will be difficult for PE houses to achieve their target IRRs in the current economic environment. 84 percent of respondents believe there will be less than five exits in 2010, with 24 percent believing there will be none.

In your opinion, what will be the average deal size in 2010?

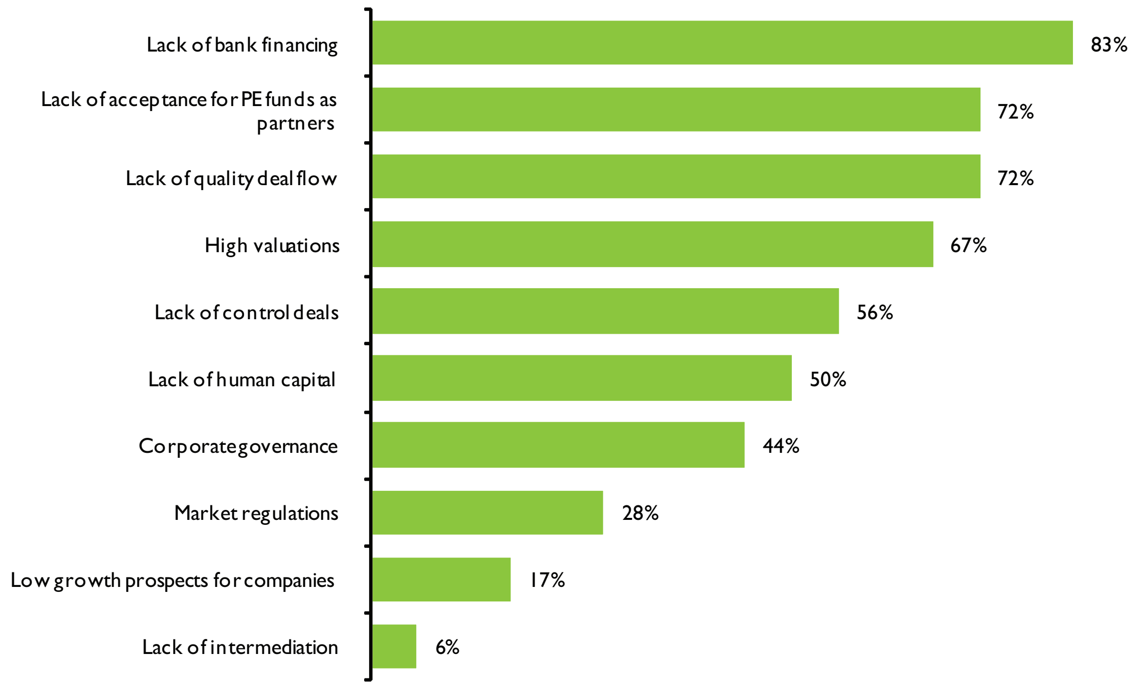
Average deal size in 2010



The majority of respondents believe the average deal size will be between $20 million and $40 million. This is in line with the 2009 data analysed which showed an average deal size of $26 million.

What are the main challenges in 2010 for the MENA private equity industry?

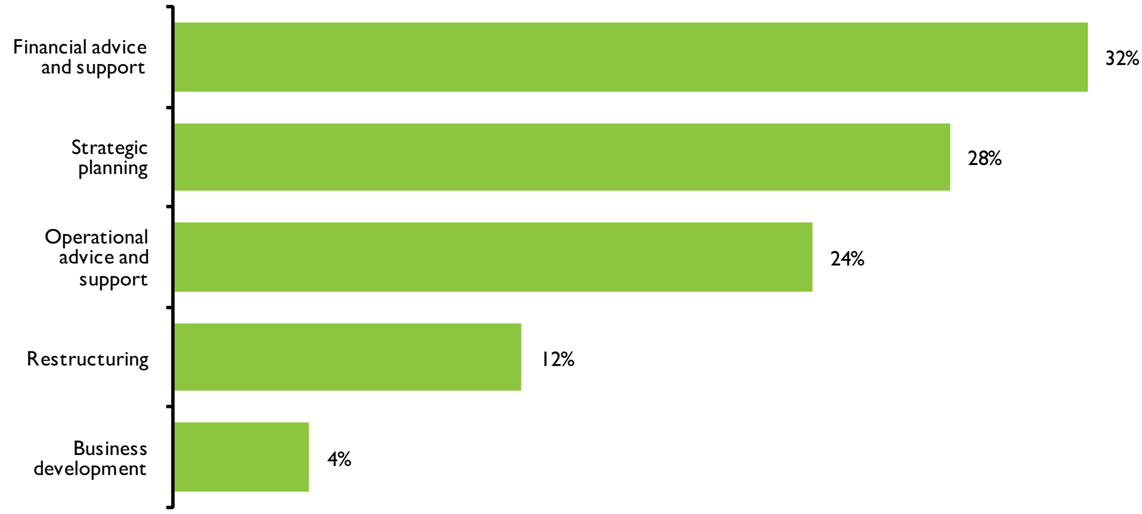
Main challenges for the private equity industry in 2010



As expected, the most common challenge among respondents related to obtaining acquisition finance. 72 percent of respondents believe a major challenge to be a lack of acceptance of PE funds as partners. This may be due to apprehensions regarding the intentions of PE funds and their relatively short-term investment horizon.

What is the most important role of PE firms in their portfolio companies?

Role of PE firm in their portfolio companies

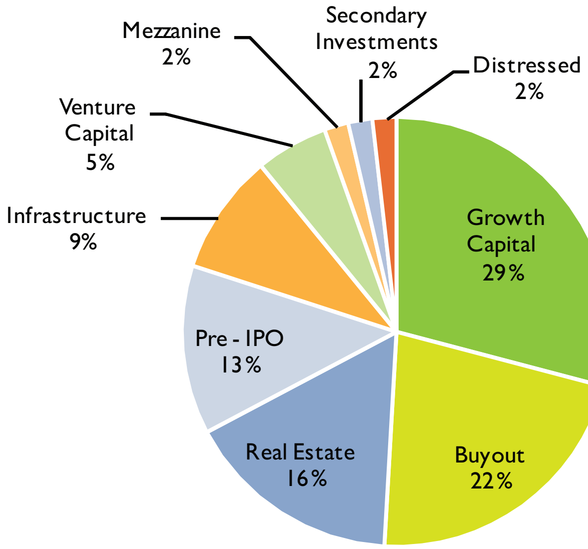


PE firms themselves believe their most important roles are to provide both financial and operational advice and support to their portfolio companies as well as strategic planning.

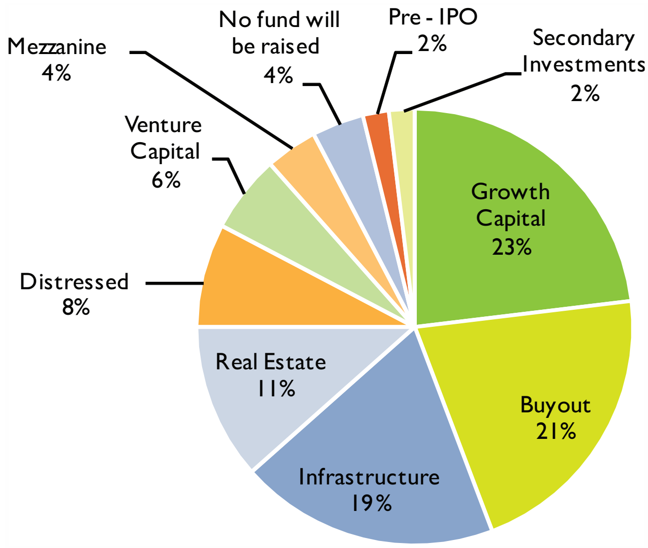
4. Types of funds

Types of fund managed? In your opinion what types of funds will be raised in 2010?

Types of funds currently managed



Types of funds planned to be raised in 2010



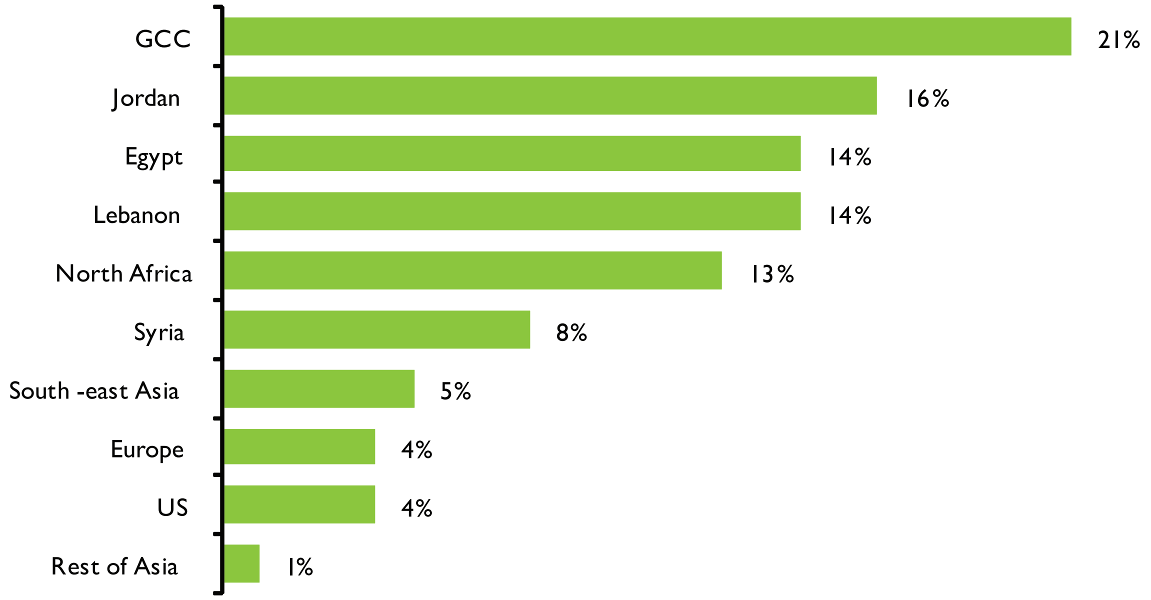
There is a notable resurgence in growth capital funds both in funds currently managed and those planned to be launched in 2010. The preference of growth capital over the buy-out model reflects the sentiment towards private equity in the region as a provider of capital and the challenges in obtaining controlling stakes due to a lack of leverage and a resistance on the part of family businesses to relinquish control. Reinforcing this point, 40 percent of respondents believe growth capital to be the most likely deal type in 2010. However, 64 percent believe the buyouts to be a better option.

Infrastructure funds are also expected to be a popular option going forward as the industry hopes to capitalise on the significant government expenditure planned in the coming years.

5. Regions and Sectors of interest

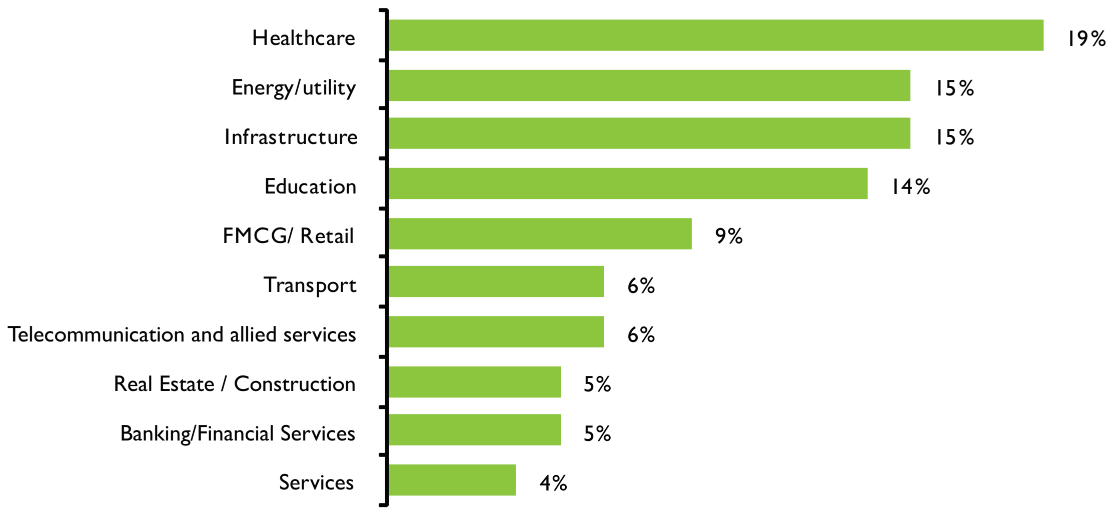
Regions of interest?

Regions of interest



After the GCC, specific interest in Jordan, Egypt and Lebanon is clearly the focus for the respondents going forward due to the large population growth, growing middle class, the level of anticipated government spending and considerable amount of family owned business with growth potential requiring capital injections.

Sector of interest in 2010

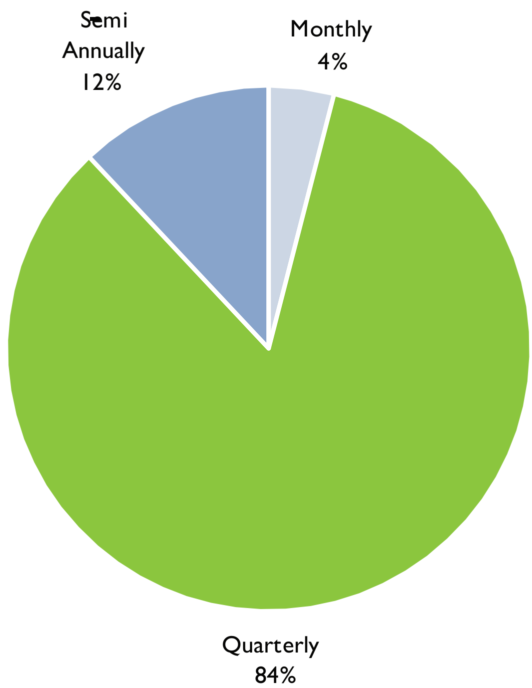


The focus for 2010 is clearly on defensive sectors which will offer non-cyclical low risk income streams, benefit from the population growth expected in the MENA region and offer resilience to any future downturn.

6. Reporting & Disclosure

How frequently do you inform your LPs about the funds' performance?

Reporting frequency



The majority of respondents continue to report quarterly. When asked if managers are willing to give out more information to the public, 72 percent said no.

6 GVCA – Gulf Venture Capital Association

6 GVCA – Gulf Venture Capital Association

6.1 GVCA Overview

GVCA is a not for profit trade and industry association for Venture Capital (VC) and Private Equity (PE) based in the Kingdom of Bahrain to serve the whole region. Its prime role is to promote a risk-taking investment culture, develop skills, facilitate networking, and provide relevant information and statistics on VC/PE industry.

Mission:

GVCA's mission is to serve the VC/PE industry and foster its growth in the Region.

Goals:

- Promote and advocate VC/PE as a vital industry, contributing to economic growth.
- Facilitate communication and networking among stakeholders.
- Gather and disseminate industry statistics and information.
- Develop and promote professional and ethical codes of conduct.
- Foster professional development and learning environment.

The Association's activities cover several aspects of the VC/PE industry such as trends and strategies, legal/ fiscal policies and regulations, investment models, management of fund raising and structures, technology evaluation and valuation, contracts and control rights, information/studies, early-stage funding, buyout, IPO, and corporate venture capital, among others.

Membership:

Members of the GVCA include VC/PE companies, financial institutions, corporations, consultants, and business development organizations, among others.

Committees:

The Association has established the following four committees to bring together members who represent their areas of expertise to work on GVCA activities and actions:

- Membership Committee
- Learning & HR Committee
- Regulation Committee
- Information & Statistics Committee

6.2 GVCA Board of Directors

Mr. Abdullah Al- Subyani
President, GVCA
Saudi Aramco, KSA

Imad Ghandour
Information & Statistics Chairman, GVCA
Gulf Capital, UAE

Hussein Rifai
Regulation Committee Chairman, GVCA

Ihsan Jawad
Board Member, GVCA
Zawya.com, UAE

Wissam Kojok
Board Member, GVCA
Silk Route, UAE

Murad Mahmoud
Board Member, GVCA
Dlala Holding, Qatar

Oussama Tabbara
Vice President, GVCA
Nexia International, KSA

Mr. Mansour Al Khuzam
Membership Committee Chairman, GVCA
Khazaen Venture, Kuwait

Marwan Tabbara
Treasurer, GVCA
Stratum, Bahrain

Ahmad Al Sari
Board Member, GVCA
Malaz Group, KSA

Khaled Fouad
Board Member, GVCA

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7 Directory of private equity firms in MENA

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Abraaj Capital

Abu Dhabi Investment Company

Abu Dhabi Investment House (ADIH)

Addax Bank

Agility

Al Anwar Holdings

Al Arabi Investment Group

Al Fawares Holding

Al Futtaim Capital

Al Imtiaz Investment Company

Al Kafaa Financial Investment and Trading

Al Mal Capital

Al Ritaj Investment Company

Al Tawfeek Company for Investment Funds

Al Touq Company

Alcazar Capital Limited

Amwal Al Khaleej

Amwal International Investment Company

Arab Business Angels Network

Arcapita

Arzaq Holding

Atlas Investment Group

Awal Bank

Bahamdan Group Holding Limited

Beltone Private Equity

BMG Financial Advisors

Capital Industries and Investments

Capital Invest

Capital Management House

Capital Trust

Capivest Investment Bank

Catalyst Investment Management Company

Citadel Capital

Commercial International Investment Company

Concord International Investments

CORECAP

Corporate Finance House

Delta Partners

Dubai International Capital

Eastgate Capital Group

EFG-Hermes Private Equity

Egypt Kuwait Holding Company

Emerging Markets Partnership (Bahrain)

Emirates Investment and Development

Company

Equity I

Evolvence Capital

First Investment Bank - Bahrain

Foursan Group

Global Capital Management Limited

Gulf Capital

Gulf Finance House

Gulf One Investment Bank

Haykala Investment Managers

HBG Holdings

HSBC Private Equity (Middle East)

Injaz Mena Investments

Instrata Capital BSC (c)

Intel Capital

Interactive Ventures Holdings

International Investment Bank

Investcorp Bank B.S.C.

Ithmaar Bank

Ithmar Capital

Keystone Equity Partners (Growth Gate Capital)

KGL Investment
Kipco Asset Management Company (KAMCO)
Kuwait Finance and Investment Company
Kuwait Finance House (Bahrain)
Lebanon Invest Asset management SAL
Levant Capital
M'Sharie
Malaz Group
Markaz
MENA Advisors Limited
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Zawya

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- As IPOs are a popular exit strategy for Private Equity Managers in the region, the IPO Monitor brings together historical analysis, activity monitoring, and a pipeline of deals for the IPO asset class. Strengthening members' understanding the industry & market appetites, and keeping track of what lies ahead in Corporate Arabia's quest to go public.

  Additionally, Zawya members can review portfolio details, identify where the bigger players are investing, and gain clear insight on the trends and behaviors of the region's Sovereign Wealth Funds through our dedicated coverage of SWF activity.
- Zawya's Corporate Monitor service, the cornerstone of our solutions, combines the names and contact details of 120,000+ senior officers with a comprehensive database of over 14,000 public and private companies based in the Middle East. Members can build customized company lists, as well as compare and contrast company profiles by sector, market size, and ownership. Similarly, third-party research provided in the Research Monitor offers greater understanding of the overall state of the target company's market, sector, and macro-economic context.
- With a team of on-the-ground journalists stationed throughout the region, Zawya Dow Jones Live News, an exclusive partnership with Dow Jones Newswires, delivers unique and insightful stories to help you better identify, assess and connect to the right finance and investment opportunities in the Middle East. In addition, more than 200 regional and international news sources are aggregated by our in-house editorial team, offering maximum exposure and clarity on the asset class.
- The Zawya Network (ZN), our exclusive private network for premium members, offers users the ability to quickly connect, engage, and transact with like-minded professionals. Forge valuable relationships, engage in variety of discussions, identify new oportunities, and tap in to the knowledge and experience of the regional and international investment community.

Abraaj Capital

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ABRAAJ أبــــراج
CAPITAL كـابيتال
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Abraaj Capital is the biggest private equity group in the Middle East, North Africa and South Asia (MENASA). Since inception in 2002, it has raised US$ 7 billion and distributed almost US$ 3 billion to its investors. With its headquarters in Dubai, the Abraaj Group operates seven offices in the region including Istanbul, Cairo and Riyadh. It has made more than 35 investments in 11 countries and exited 20. More than eighty world-class investment professionals work for Abraaj.

Abraaj manages seven funds; four buyout funds; Riyada Enterprise Development Fund, a fund dedicated to small and medium enterprises; ASAS, an income-generating, sale-and-leaseback fund; and a real estate fund. Funds under management at the end of 2009 were US$ 6.6 billion. Abraaj funds have holdings in about two dozen companies in the region including Air Arabia, the region's biggest low-cost carrier; Acibadem Healthcare, Turkey's largest privately owned hospital operator; and Al Borg Laboratories, the Middle East's biggest privately owned medical-testing laboratory company.

Abraaj has won many regional and international awards, including five consecutive years as 'Middle Eastern Private Equity Firm of the Year' from London-based Private Equity International. Abraaj Capital Ltd., a member of the Abraaj Group, is licensed by the Dubai Financial Services Authority. The group is also an associate member of the European Venture Capital Association.

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THE INSTITUTE FOR CORPORATE GOVERNANCE

Hawkamah- The Institute for Corporate Governance

Hawkamah, the Institute for Corporate Governance is an international association of corporate governance practitioners, regulators and institutions whose primary mandate is to develop corporate governance best practices in the Middle East region.

Launched in February 2006, Hawkamah is working to create a system of governance that promotes institution building, corporate sector reform, good governance, market development and increased investment and growth across the region.

The Institute aims to foster investor confidence through the development of efficient financial markets and banking systems, and to help shape the changing corporate governance landscape in the MENA region.

The annual Hawkamah conference focuses on the key issues such as corporate governance, international trends to serve financial market stability, family governance and equity market. The inaugural conference brought together over 300 market players from across the region and issued the Dubai Declaration which charted the corporate governance agenda for the Middle East and North Africa.

Hawkamah was established in partnership with the Dubai International Financial Centre (DIFC), Organisation for Economic Cooperation and Development (OECD), UAE Ministry of Finance and Industry, Centre for International Private Enterprise (CIPE), International Finance Corporation (IFC), the Union of Arab Banks (UAB), Dubai School of Government (DSG), Young Arab Leaders (YAL), and the Institute of Management Development (IMD).

The name Hawkamah combines three Arabic words: 'Hukuma' (government), 'Hukm' (judgement) and 'Hikmah' (wisdom). (www.hawkamah.org)

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Gulf Capital

Gulf Capital is a leading regional investment company, focused on the GCC and MENA Region.
Incorporated in early 2006 as a Private Joint Stock Company (Pvt. JSC) in Abu Dhabi, Gulf Capital has raised AED 1,225 Billion (US$ 330 Million) from 300 of the most prominent businessmen, institutions and families in the GCC.

Gulf Capital seeks to acquire sizeable or controlling stakes in profitable and rapidly growing companies with high quality management, particularly those that can retain a sustainable competitive advantage. The group seeks to invest in a select number of growing industries, notably those that are undergoing consolidation. Gulf Capital is rapidly emerging as a leader in the Middle East private equity industry, with a mission to enhance shareholder value through partnering with portfolio companies to achieve exceptional growth.

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Global Capital Management Ltd.

(GCM), the alternative investment management arm of Global Investment House, is a leading alternative investment management company in the Middle East & North Africa (MENA) region managing in excess of US$2.25 billion of assets through 20 funds in private equity, real estate and hedge funds & fund of funds.

GCM has one of the largest private equity teams in MENA with about 35 professionals comprising 11nationalities. The private equity team has cumulative work experience of over 300 years ranging from private equity & venture capital, investment banking, transaction advisory, strategic advisory, finance and accounting. The team is based out of four locations - Kuwait, Saudi Arabia, Egypt and Turkey.

In its private equity practice, the GCM team has invested about $1.5 billion in 56 transactions across 11 sectors in MENA, Turkey, South Asia and South East Asia during the past five years. The team has maintained a positive double digit return generating an IRR of around 34% as of June 2009 for its existing investor base which comprises international and MENA institutional investors. GCM has a successful track record of exiting investments; the private equity team concluded 17 full and partial exits through both public markets and trade sales. GCM's achievements have been recognized at product and deal level through awards such as Fund of the Year for 2007 and 2008, and Private Equity Deal of the Year for 2008 by Terrapin. Recently, Private Equity International has also ranked Global Capital Management as one of the top 150 private equity firms in the world and top 20 in Asia.

HBG Holdings | Private Equity

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HBG Holdings ("HBG") is a leading private equity investor and fund management business with offices in London, Jeddah and Dubai. HBG specializes in raising capital from Saudi Arabia and the Gulf economies for investment in private companies in the Middle East and other emerging markets. HBG is also a global pioneer in structuring Shariah-compliant private equity funds.

HBG invests both directly from its balance sheet and through private equity funds and focuses on companies that can benefit most from its operational and strategic know-how. HBG has specific expertise in growth capital transactions as well as mid-size buyouts, PIPEs and turnarounds.

Established in 2004, the firm comprises a team that is impressive in its heritage, having collectively led some of the region's largest businesses and played a pivotal role in its landmark M&A transactions. The team has vast knowledge of the region accumulated over many decades of operating businesses and leading private equity transactions. HBG also benefits from a diverse client base of private and institutional investors from across the Gulf countries.

HBG Holdings is a member of the Emerging Markets Private Equity Association and is regulated by the United Kingdom Financial Services Authority.

www.hbgholdings.com

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Malaz Group

Malaz Group is an early to mid-stage venture capital firm that invests in knowledge-based companies across the Middle East and North Africa(MENA). It raises and manages sector specific investment vehicles within the knowledge domain. Malaz Group was incorporated in the year 2000 and has built a record of successful investments and exits in information and communication technology companies. Its currently active investment vehicle is ICT Ventures which has commitments of SR250million to invest in growth-stage information and communication technology companies across MENA.

Malaz Group is blazing a trail in the development of venture capital in Saudi Arabia and the region based on the conviction of Malaz Group partners that time has come for the venture capital industry to play a key role in the development of knowledge economies across MENA. Malaz Group is working with all players including government policy makers and regulators as well as key investors to create a favorable environment for the development of venture capital in the region.

While finalizing requirements for a group company to commence asset management operations under license from the Capital Market Authority, Malaz Group is making plans to launch new VC funds in knowledge areas that include education, oil & gas technologies and health.

GVCA

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Gulf Venture Capital Association

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