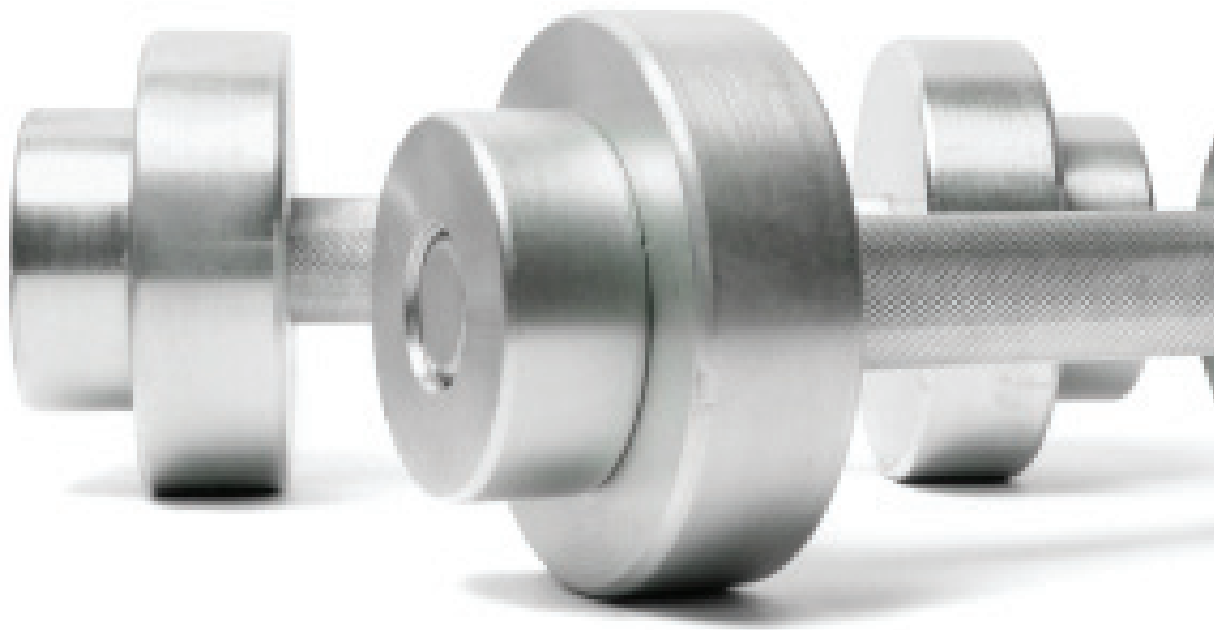


Shaping up for 2010  
MENA Private Equity  
Confidence Survey



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## New investment activity is expected to significantly increase, on the back of lower valuations, an increasing number of distressed opportunities, and the long-hoped for improvement in overall economic conditions.

The over-riding theme from our latest MENA Private Equity Confidence Survey is 'Shaping up for 2010'. Indeed, with the backdrop of the global economic downturn, and specifically the impact it has had upon the region, it is hardly surprising that the somewhat bullish outlook of previous survey findings has been replaced by a more cautious approach as GPs prepare for the forthcoming year.

New investment activity is expected to significantly increase, on the back of lower valuations, an increasing number of distressed opportunities, and the long-hoped for improvement in overall economic conditions. With IPO markets still uncertain, the PE industry believes that companies needing funds to expand or for refinancing bank debt will turn to private equity in increasing numbers.

However, a degree of uncertainty still exists, with the expectation that the market will adapt to a slower, yet more sustainable rate of growth. There is still some further convergence of seller and buyer valuations to be seen, but on the whole, the industry believes it is a good time to buy, though perhaps not a good time to sell, and exit activity is anticipated to decline. This will have a negative impact on returns as hold periods lengthen. Given this, it is not surprising that over 80% of the GPs surveyed anticipated portfolio management will be a specific area of focus over the next 12 months.

Nevertheless, the industry remains very confident about the long term future of private equity in the MENA region, and it is generally adapting well to changing conditions. Increased emphasis on adding value to portfolio companies is a sign of the growing maturity of the industry.

Best Wishes,

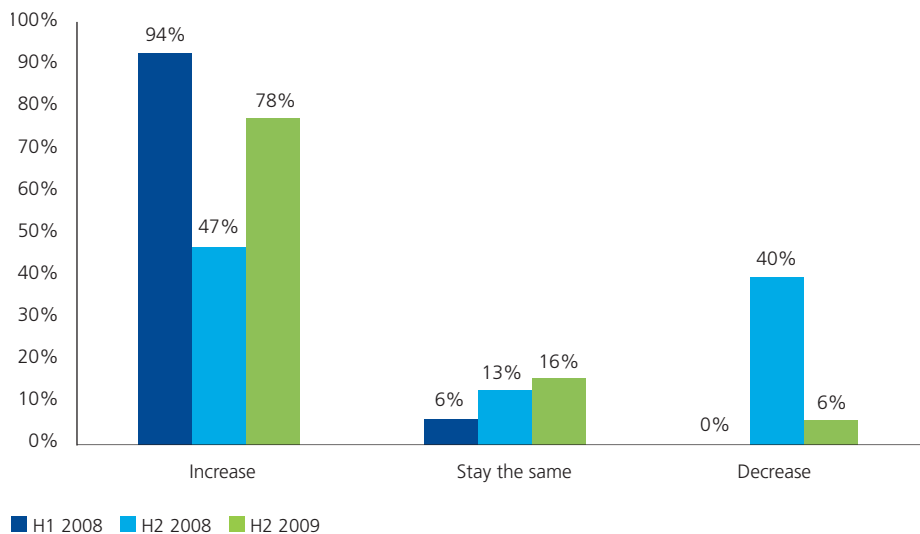
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## Investment activity levels

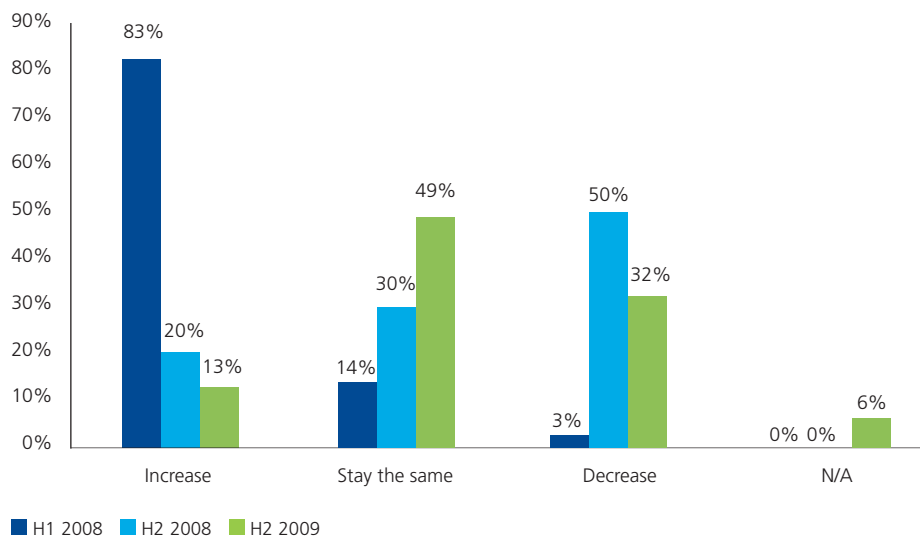
Expected trend in investment activity levels in the MENA private equity market over the forthcoming twelve months:



“Investment activity will increase but the type of activity will change. The major driver will be stabilization of the markets. The last 12 months have been particularly difficult but people can now begin to turn over a new leaf. There is tremendous liquidity in the market. There is a lot of cash in the bank accounts of private equity houses and this capital needs to start looking for a home. The problem is the lack of financing options available. Regional banks are the key remaining problem, and there seems to be a hesitancy on their part to look at private equity deals.”

## Deal sizes

Expected trend in average deal sizes in the MENA private equity market over the forthcoming twelve months:

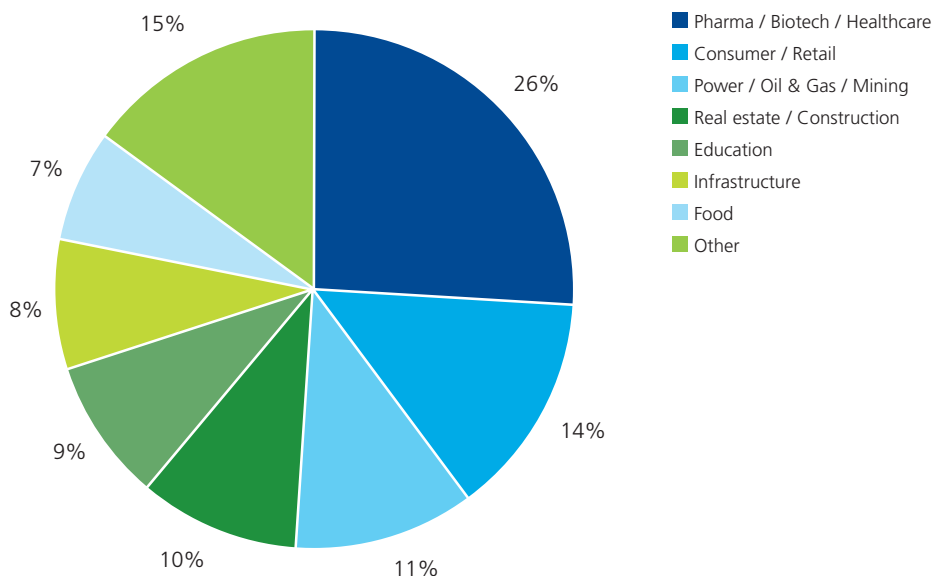


“The average will decrease due to most deals being development capital or venture focused. Banks are wary of providing leverage – it is a tough time to be lending. High Net Worth Individuals are looking at backing operating businesses and start ups.”

“Deal sizes will remain the same overall. For growth capital, this is around \$30-50 million, and for buyouts it is within the \$100-200 million range.”

## Industry sector activity

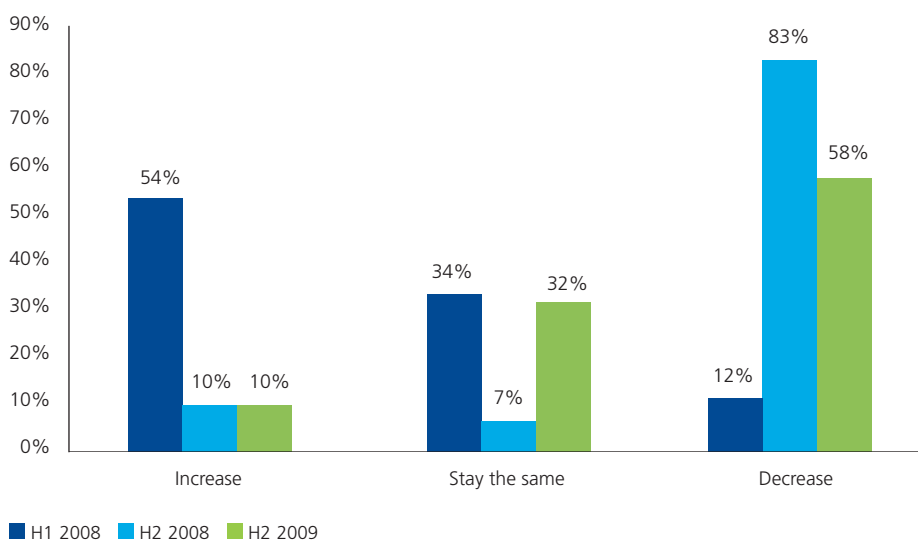
Industry sectors expected to yield the most opportunities over the next 12 months:



“It is hard to say because business is not necessarily sector driven. Firstly, business tends to be opportunistic – you follow the areas where deals are doing well and the sector is irrelevant. Secondly, it depends on where each investor has strengths and synergies. It is best to stick to the space you know. Going forward, businesses that are most robust and less susceptible to stock market issues will be more in favour. Our people are looking for comfort, not risk, in this current climate.”

## Entry multiples

Expected trend in entry multiple patterns over the forthcoming twelve months:

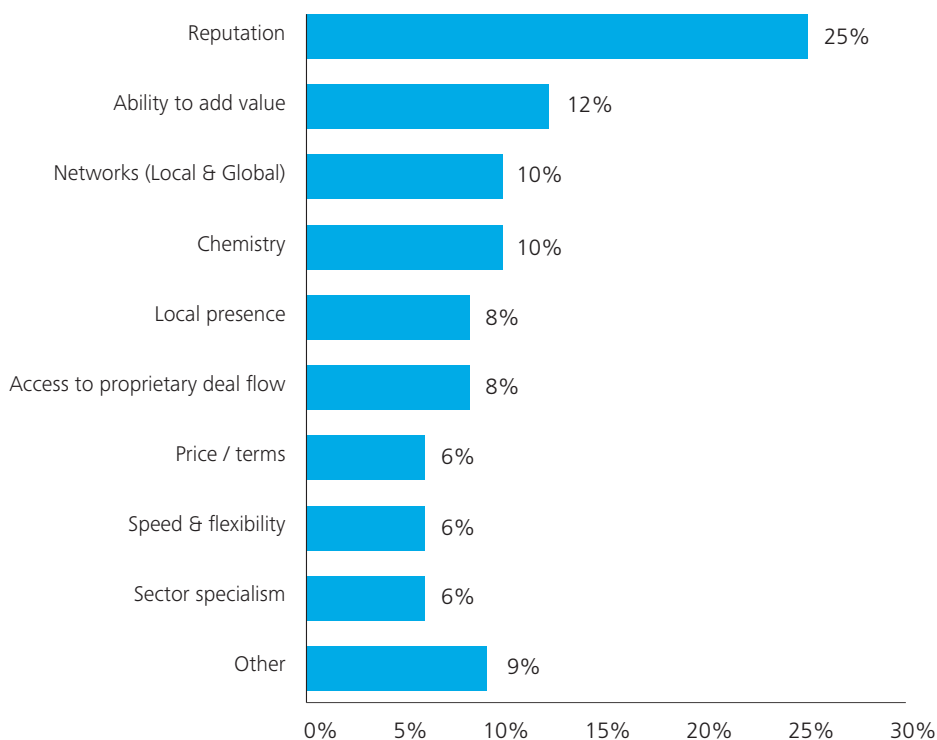


“Valuations will decrease. There is a mismatch between buyers and sellers. In general, valuations should be 4-5 times earnings at the lower end and 5-6 times earnings at the higher end.”

“There is a time lag between listed valuations and private equity valuations. Valuations will still be challenging going forward, and have already inhibited a number of deals, but there will be companies who have a more practical view on this. If they are intending to get to an IPO in a three year timeframe, they will have a better understanding of realistic entry multiples, although overall valuations are still out of line with reality.”

## Differentiating in a competitive market

Competitive differentiators between private equity firms, identified as critical to winning deals:

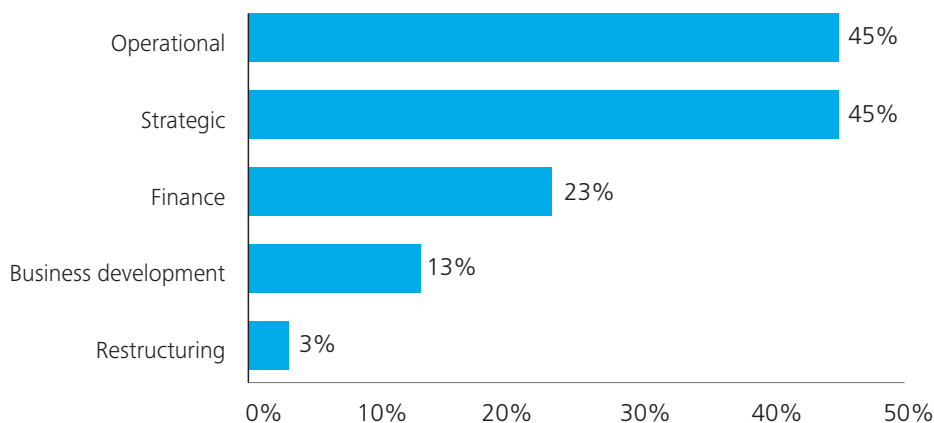


“It is all about what you can bring to the table in terms of expansion. You need to be able to act on growth capital. By focusing on operations and efficiency, this will lead to business development and best practice and reducing excess costs. On the growth side, private equity firms can steer portfolio companies towards new markets and increase market share in these new markets.”

“Quality of the team and management, track record and reputation - these are the key factors. We have seen some spectacular failures where reputations have been ruined.”

## Management and governance

81% of survey participants anticipate becoming increasingly hands-on in respect of involvement with portfolio companies over the forthcoming twelve months. Identified areas of portfolio management included:



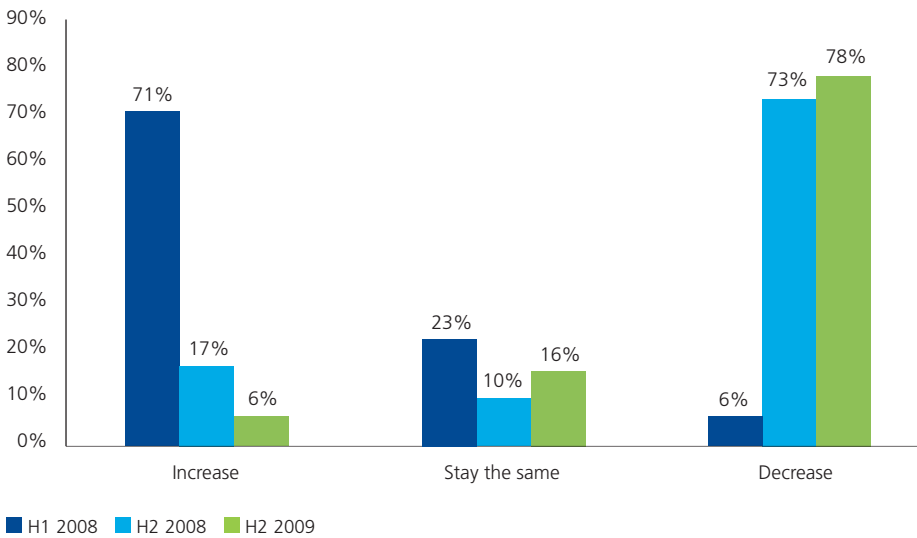
“It is a fine line deciphering how ‘hands on’ to be. There are important lessons we try to learn. The first step is to see where and how we can add value. This starts with ourselves as private equity investors. It takes a confident man to say ‘this is not my area of expertise and we need to get an advisor in’. What is also important is the ability to communicate, measure performance and consider company performance objectives in order to establish benchmarks and best practices. We encourage clients to get advice from others. As a private equity firm, we can facilitate the portfolio companies seeking advice from consultants.”

**Note:**

Survey participants could specify an unlimited number of areas in which they anticipated becoming more hands-on with their portfolio companies.

## Exits

Expected pattern of exit activity over the forthcoming twelve months:

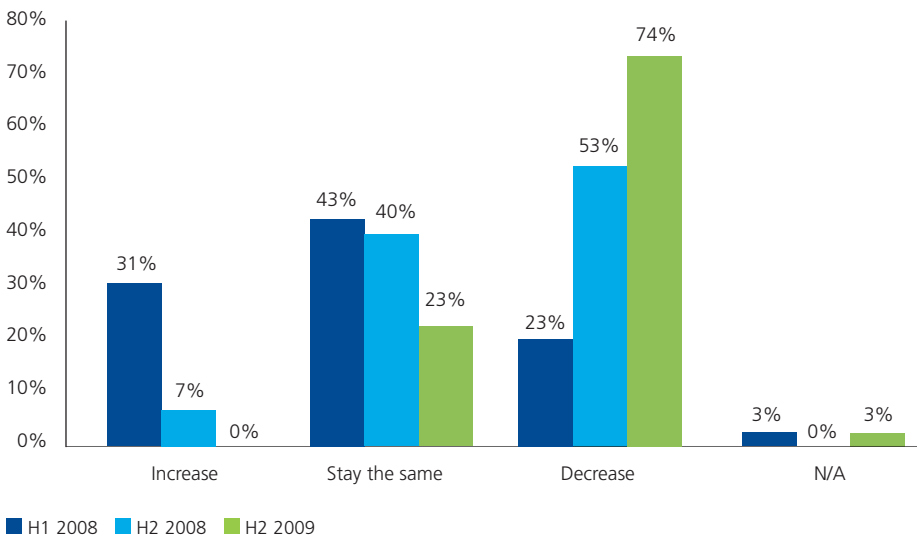


“Our aim is to invest in companies and to help them grow and become regional players so we can sell through a trade sale, IPO or secondary buyout. The IPO market is, however, not open anymore. Exits are not frozen for the smaller players, operating around the \$150-\$200 million deal size area, but things are trickier for larger international investors.”

“There will be few exits over the next year. IPOs have dried up but will come back again at some stage. There will be some opportunities to sell to strategic buyers but this will still be difficult.”

## Returns

Expected pattern of returns achieved from private equity exits over the forthcoming twelve months:



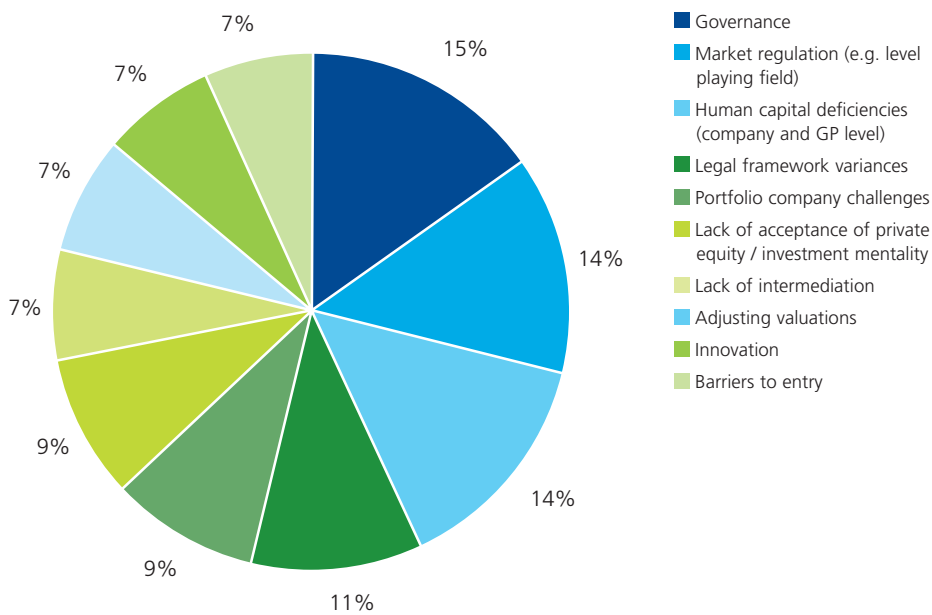
“This very much depends on when you invested. 2009/2010 vintage investments will have phenomenal returns, but returns from 2007/2008 investments will be dismal.”

“People will be holding now as it is not a good time to sell. There are two main drivers of value depreciation.

- 1) Multiples have shrunk or compressed; and
- 2) you need to find buyers in the first place! For 2007/2008 vintages it is a difficult time now.”

## General outlook – challenges to overcome

Identified challenges and barriers to growth for the MENA private equity industry to overcome:



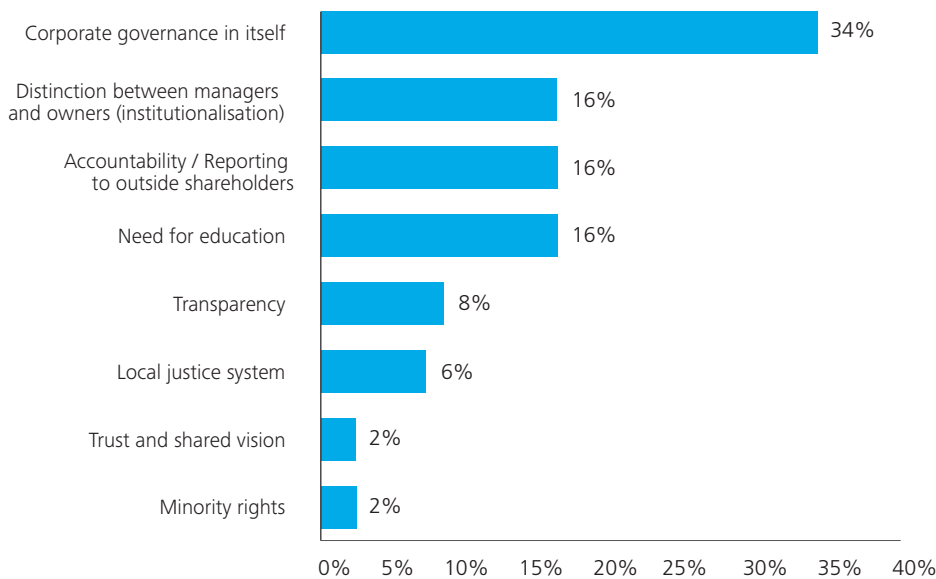
“It is an emerging market. Therefore many companies do not see private equity firms as partners, but just there to take their pound of flesh.”

“There is less legal support than in other areas of the world, although transformations are starting to take place, such as in Saudi Arabia. The sources of capital are changing too which presents a challenge in itself.”

“One of the biggest challenges is getting the right valuation at the moment. Also, there is a lack of intermediaries established in the region, so when you approach companies about change they aren’t ready for it. You have to convince companies to take on third-party investors, and as a result, transactions can take a long time.”

## Corporate governance

The biggest challenges identified relating to corporate governance:



“Corporate governance is a huge challenge. We have introduced another dimension to private equity here. The problem is that everyone knows the right words to say, but the actual understanding of corporate governance is abysmal. No one wants to upset senior management and so everyone pays lip service to corporate governance without personal discipline.”

“You need to know your client before getting into corporate governance here. Understanding transparency and the background to companies will help, but transparency is very difficult because you cannot have an open conversation with someone until they know you. The corporate governance concept is not embedded in the way of business here. There is little respect for it and are often no clear accounts, reputation or performance to judge anything by.”

### About the survey

Our MENA Private Equity Confidence Survey serves to provide a barometer of market perception and confidence amongst private equity professionals focused upon investments within the MENA region. Canvassing the opinions of General Partners operating at local level, this survey examines how sentiment reflects the current market situation; identifying trends and providing commentary and insight into how professionals regard this region as evolving in the short to medium term.

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To participate in the next MENA Private Equity Confidence Survey, or to register to receive a copy of the full set of results please contact [privateequityME@deloitte.com](mailto:privateequityME@deloitte.com).



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