

**Deloitte.**

Private Equity  
Confidence Survey  
2011 Global  
Emerging Markets  
Comparison Report





# Introduction

Deloitte is pleased to announce the findings of its 2011 Private Equity Confidence Survey. Deloitte has conducted its annual Private Equity Confidence Survey of seven emerging market regions: China, India, Latin America (LATAM), Southeast Asia, Central and Eastern Europe, Middle East and North Africa (MENA).

## Emerging market prospects: Moving into uncharted territories

Emerging market private equity is bouncing back strongly following the downturn. By way of example, recent figures from McKinsey show that fundraising for Asian private equity increased 22% in 2010 as the number of US\$1bn+ funds in the region jumped 400%\*. Asia is not alone: the total amount of funding currently being sought for investment in LATAM represents a significant jump in the total amount raised in 2010, according to Preqin.

Not surprisingly, it is the key countries within each region – e.g. China, India, Brazil - that still lead the way from a fundraising perspective, but such levels of growth in dry powder have their consequences. Higher levels of competition and market sophistication inevitably lead to higher prices and tougher challenges in hitting target returns. Markets become more efficient and the low-hanging fruit disappears from the trees. People start to talk about bubbles and overheating. At the same time, greater visibility of the asset class attracts the watchful eye of the authorities, as the pressure for regulation to monitor industry development grows.

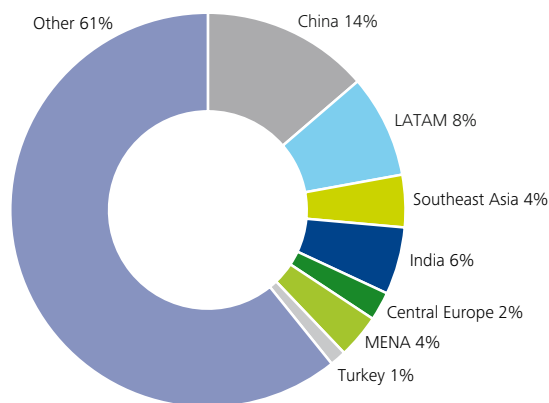
While the potential and attraction of the main emerging market growth engines is not likely to die down any time soon, there is a gradual recognition that keeping at least one eye on some of the currently less tapped countries within the emerging regions could reap rewards. Relatively undiscovered countries, in private equity terms, such as Colombia, Peru, Vietnam and even Iraq are seen by an increasing number of investors as destinations where opportunities are still aplenty, but competition is not (yet) at the levels seen in some of the more established regions.

The key to exploring these less-charted frontier territories is balancing the associated political, economic, and cultural risks with the reward potential. It has been argued that the BRIC (or is it now the BICI?) economies are not the only emerging markets which offer attractive risk-adjusted returns, but the emphasis when exploring new horizons certainly needs to be on adjusting for risk and attempting to reduce it where possible.

It is widely felt that local presence and contact networks are crucial in private equity, and this is never more the case than in the less developed markets. Partnering with local players, either on a deal-by-deal basis or as part of a more formal strategic alliance, is now commonplace in some regions. Understanding locality extends beyond the need for local deal sourcing to include a sound knowledge of the regulatory and legislative nuances of individual markets. It also includes cultural factors as well, such as the openness of promoters of family-run businesses to approaches from foreign private equity houses, and an understanding of the geo-political risks in particular countries, the likes of which have been only too apparent in recent times in the Middle East.

With this as background, this report evaluates the key patterns and trends within emerging market private equity today, taking into account both inter- and intra-regional developments.

Global GDP (PPP, 2010\*\*)

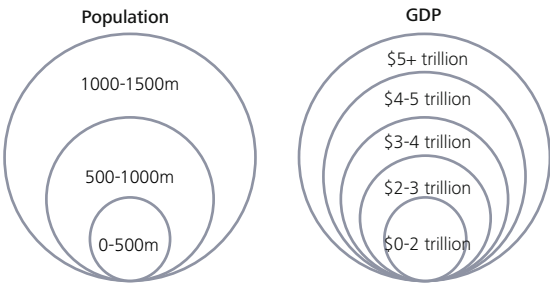
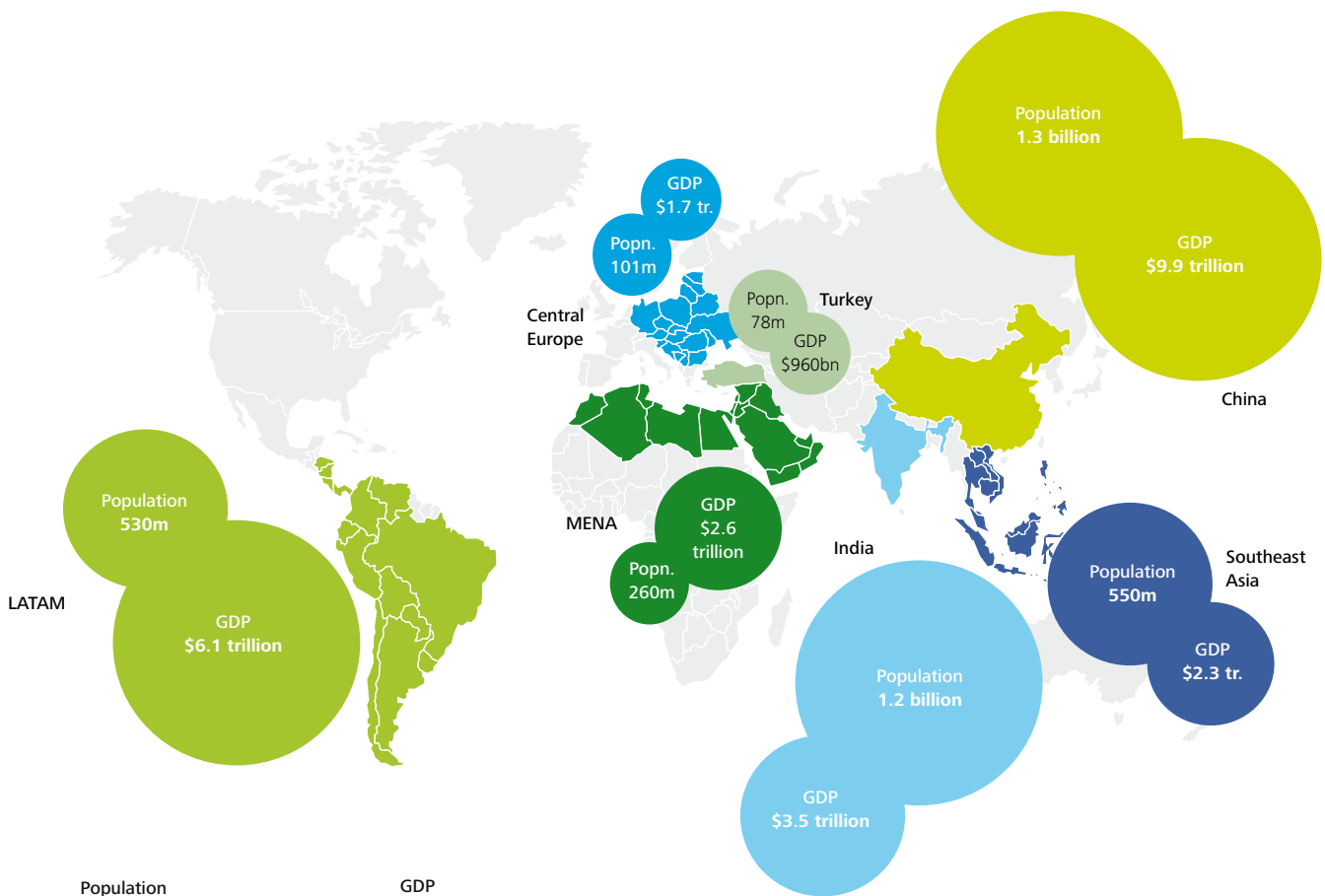


We would like to take this opportunity to thank all the General Partners who took part in the survey and assisted us in presenting their views on the outlook for 2011.

Deloitte is committed to private equity in emerging markets and we hope you find this survey useful. We look forward to working with you in the coming year to raise the profile of private equity in emerging markets as a beneficial and sustainable form of capital.

Sources: \* McKinsey 2011,  
\*\* CIA World Fact Book (2011)

PECS regions: Market size comparison



Source: GDP (PPP): CIA World Fact Book (2011); Popn: CIA World Fact Book (2011)

**Deloitte View**  
*'Some of the "Frontier" countries such as Iraq, Sri Lanka, Cambodia and Pakistan, represent a significant opportunity given their significant resources, though there are clearly security issues to deal with.'*  
**Richard Clarke, MENA**

**The historical data: the significance of emerging market private equity on the global stage**

The building recovery in the emerging markets is evident in the key private equity industry data. According to EMPEA, while fundraising activity remained fairly flat year-on-year across the emerging markets in 2010 (at around US\$23bn), investment activity jumped around 30% to approximately US\$29bn. Indeed, the amount invested surpassed the total funds raised for the first time in recent years, implying an improving deal-doing environment.

Although the emerging markets' share of global private equity investment fell in 2010 versus 2009, as investment activity staged a recovery in Western markets (in particular the US), the proportion of funds raised globally that is accounted for by the emerging markets rose to 11%. This serves to underline the growing LP appetite for emerging markets at this point in time, relative to more developed markets.

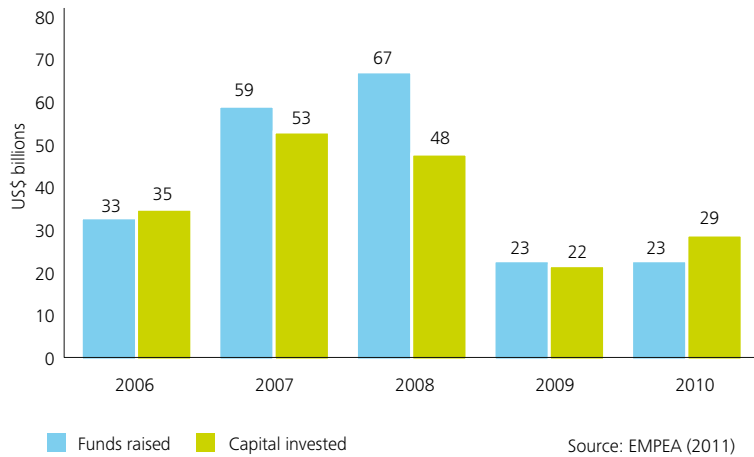
The stand-out story in terms of the drivers of these trends is LATAM, where investment levels jumped over 400% in 2010 to US\$6.6bn and fundraising hit a record, at \$5.6bn. In fact, most recent figures from LAVCA put the 2010 fundraising figure significantly higher than this, at US\$8.1bn, with the association noting that, while Brazil still dominates private equity in the region, momentum is also building in other countries such as Colombia, Peru, Chile and Argentina.

Headline grabbing figures for LATAM don't detract from the importance of emerging Asia, which is still the biggest emerging market in private equity terms, accounting for close to two-thirds of all funds raised and invested in the emerging markets.

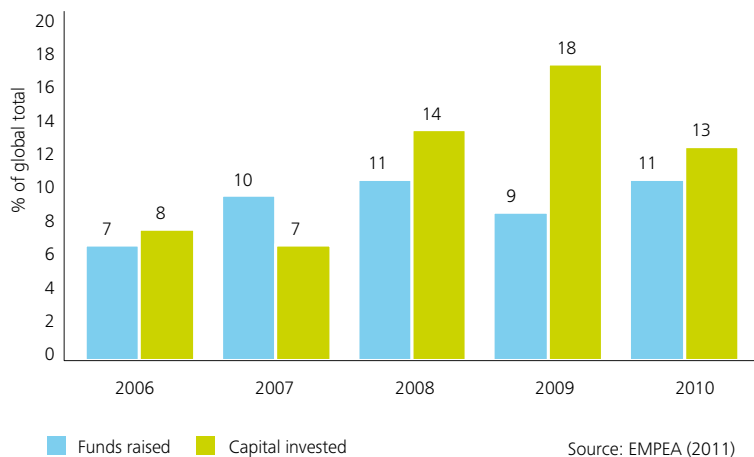
The latest signs suggest that the positive trends witnessed in 2010 are extending into 2011. For example, recently released statistics from Venture Intelligence state that the amount invested by private equity firms in India in Q1 this year was the highest since Q1 2008, at US\$3.3bn. This is significantly higher than the \$2.1bn invested during the same period last year.

**Deloitte View**  
*'Colombia's and Peru's improved regulatory frameworks and rising economies will continue to attract private equity investment in the coming months.'*  
**Jorge Schaar, LATAM**

**EM PE fundraising & investment, 2006-FY 2010\* (US\$B)**



**EM PE fundraising & investment, 2006-FY 2010\* (US\$B)**



All figures EMPEA (2011), unless otherwise stated. \*Data as of 31 December 2010

# Summary of findings

# Section 1: Key trends

## Confidence is returning...

All the signs point towards improving market sentiment, as many emerging market economies continue to bounce back strongly following the downturn. Private equity activity levels are predicted to pick up over the coming year as the emerging markets continue to attract new entrants hoping to capitalise on the expectation of untapped opportunities.

## ...driving up prices, and competition levels

Yet this resurgence in activity is resulting in increased competition, as domestic and foreign investors battle to find good investments, driven by both the 'pull' of the emerging markets themselves, as well as the 'push' of the continuing challenging conditions in the West. Inevitably, increasing competition means higher prices, especially for quality assets, which are still not that abundant in many markets.

## Pent-up demand for exits

There has been a boost in exit activity levels recently, largely spearheaded by the recovery of the public markets, but also due to sheer pressure on funds to sell. The shortage of exits during the recession has led to a backlog of mature companies ready to exit, and now economies are stabilising, exit activity is starting to flourish again.

## Long-term confidence prevails

A number of key socio-economic factors underpin positive trends in long-term confidence for emerging market private equity. Above all, the relative resilience of the markets, demonstrated by their ability to bounce back rapidly after the crisis, stands them in good stead for sustainable growth.

### Deloitte View

*'We share the positive view for the year ahead. Growth prospects here continue to look better than in EU countries. There are several sectors attracting strong interest, including health, retail, all sorts of consumer businesses, media and energy, due to the growth potential of the country. However, there is some danger the Turkish economy might overheat. The Central Bank has kept interest rates low in an effort to prevent the Turkish Lira appreciating.'*

**Basak Vardar, Turkey**

*'Activity levels increased markedly post Ramadan 2010 and have continued to increase since. MENA is still regarded as a Super Growth region and consequently international corporations are looking to the region for both organic and M&A growth opportunities. Further, there is significant regional and international investment capital waiting to be deployed and MENA is a region where high returns are possible.'*

**Richard Clarke, MENA**

*'Private equity firms have significant dry powder to use, economic macros in most sectors remain positive, and positive exit returns are helping.'*

**Heath Snyder, Southeast Asia**

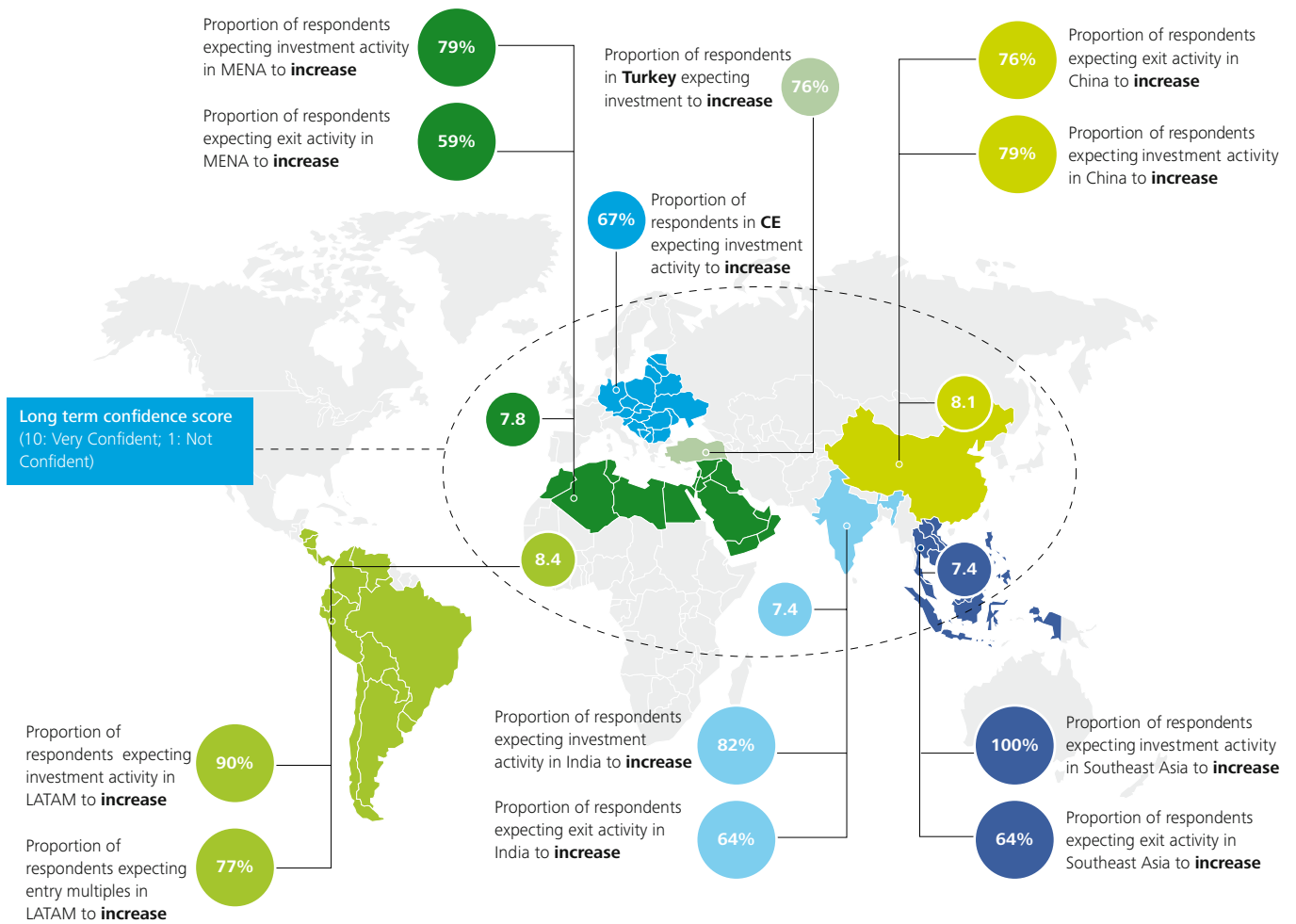
*'For the most part, Latin America managed to fend off some of the effects of the economic downturn. However, the global financial crisis and the US economic downturn has had strong adverse effects on the Mexican economy, largely due to its economic ties and dependence on the US market. As with other LATAM countries, Mexico is seeing strong signs that the long-awaited pick-up in the domestic economy is happening. Economic reforms and Government initiatives have helped Mexico recover. However, sustained economic recovery will likely depend on the performance of the US economy.'*

**Jorge Schaar, LATAM**

*'Recovery has been relatively quick in India. The fundamentals of the economy are still robust and the country is insulated to some degree. The need for Indian companies to sustain cash has not been as high as for their counterparts in the West. Typically in India private equity is seen as provider of growth capital and it has an important role to play in India's economic growth.'*

**Bimal Modi, India**

# Section 1: Key figures



# Section 2: Key trends

In this section we highlight a number of key trends and developments currently characterising emerging market private equity. These relate to finding and winning deals, regulation, and the fundraising environment.

## Reputation based on proven value-add and trust remain key to deal sourcing success

An investor's reputation within a local market and its demonstrable track record for adding value to portfolio businesses remain critical factors in gaining access to dealflow in the emerging markets. Coupled with an ability to build chemistry and trust with key stakeholders, these factors are vitally important when sourcing from both proprietary and intermediated channels.

## Competition forces diversity in origination

Reliance on a single type of origination is increasingly not an option for private equity houses, as a growing number of sources of capital jostle for the still relatively scarce investment opportunities available. Identifying quality situations early increasingly means tapping into both proprietary and intermediated streams, particularly in the more developed of the emerging markets.

## Regulation continues to be a challenge

As emerging markets develop, both in a macro-economic sense and in terms of private equity activity, so industry regulation (both the need for, and the barriers created by) moves further into the spotlight. In most markets, national Governments are seen to be, on balance, trying to help, but views on their efforts are by no means consistent.

## Growing optimism regarding fundraising

While in most markets, private equity houses are in no hurry to rush out into the fundraising market anytime soon if there isn't an urgent need to do so, there are signs that conditions are continuing to improve. Many expect fundraising to be less difficult than it has been, as LP appetite for the emerging markets picks up.

### Deloitte View

*'Finding and winning deals requires being flexible, patience and having relationship-driven networks. Barriers include pressures from being in a global platform and also constant concerns regarding paying too high an entry price.'*

**Heath Snyder, Southeast Asia**

*'We might see higher levels of competition in 2011 because of the increased number of market participants and the amount of resources available to invest. Private equity firms with local presence will have a competitive advantage in winning deals because of their experience in the region and the ability to react faster to investment opportunities.'*

**Jorge Schaar, LATAM**

*'In order to maximise dealflow, private equity managers have to connect with what is happening on the ground. Passive investments are not viewed favourably in India. It is also essential to build relationships with promoters and advisors to improve your chances of winning deals.'*

**Bimal Modi, India**

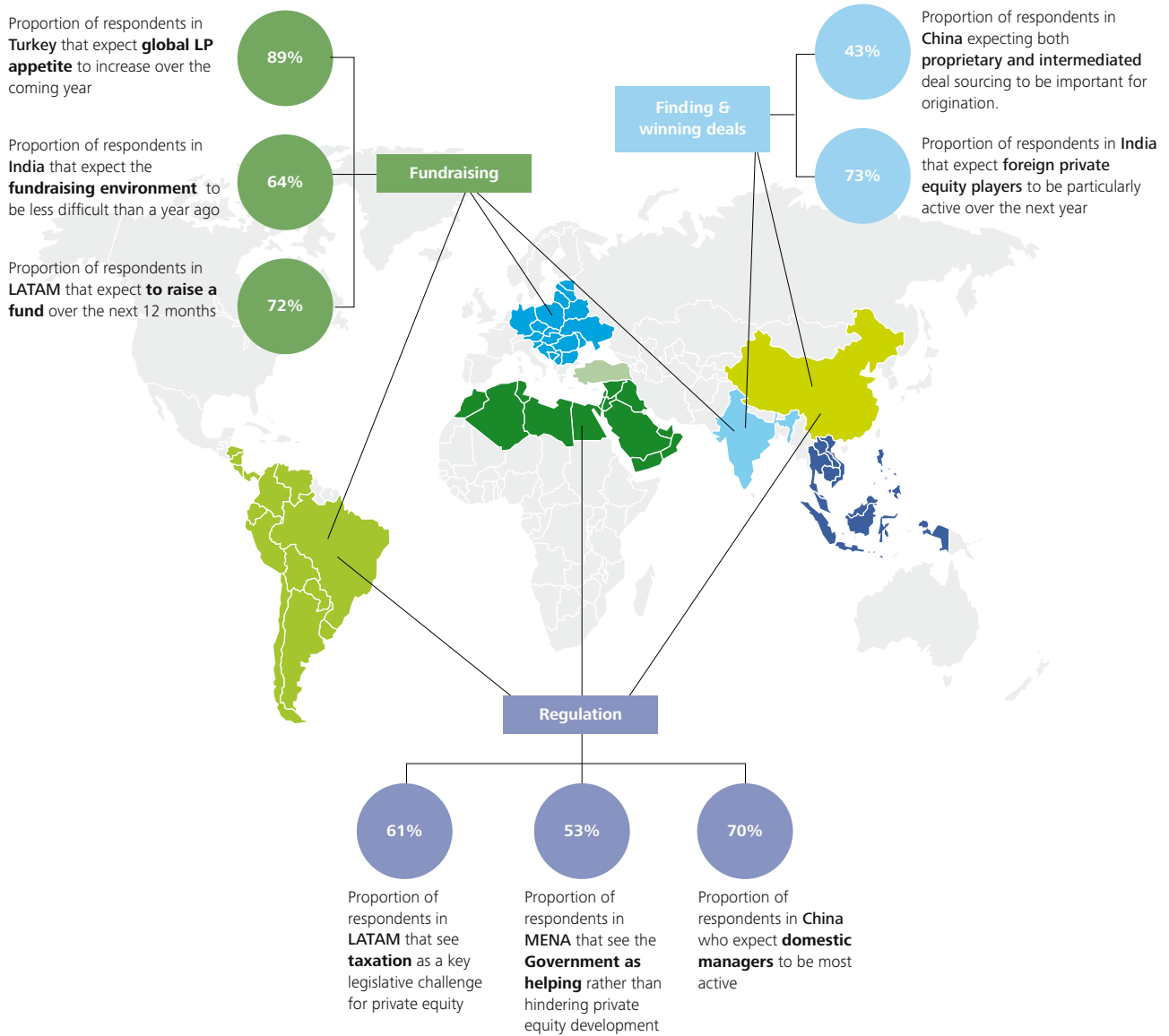
*'Brazilian regulations are not an obstacle to private equity investments as such, but in reality a reduction of the bureaucracy and a programme of tax reform would be beneficial for the economy as a whole.'*

**Antonio Caggiano, LATAM**

*'Although many private equity deals are still sourced through internal networks, competition levels are certainly increasing, partly driven by the increasing sophistication of sellers and sell-side advisors, but also by the lack of investment opportunities – i.e. lots of capital chasing too few deal opportunities. One of the key challenges for private equity firms in the region is differentiating themselves from their competition!'*

**Richard Clarke, MENA**

## Key figures



### The PECS Report Series

This report draws on data collected as part of the Deloitte PECS report series. These reports cover a range of global emerging private equity markets and the research was conducted between Q1/Q2 2011. Research undertaken in China, MENA, and LATAM involved in-depth telephone interviews (conducted by Arbor Square Associates) with both domestic and international General Partners active in the individual regions. The India, Southeast Asia, CE and Turkey research involved email or online surveys, primarily of General Partners active in the regions (undertaken by the Deloitte regional teams).

### Singapore & Southeast Asia

#### Head of Private Equity

**Heath Snyder**

hsnyder@deloitte.com

**Keoy Soo Earn**

skeoy@deloitte.com

#### Indonesia

**Iwanho**

iwanho@deloitte.com

**Suresh Marimuthu**

smarimuthu@deloitte.com

**Claudia Lauw**

clauw@deloitte.com

**Ng Jiak See**

jsng@deloitte.com

**Edy Wirawan**

ewirawan@deloitte.com

**Andrew Ooi**

anooi@deloitte.com

#### Malaysia

**Jimmy Lai**

jimmylai@deloitte.com

**Jeff Pirie**

jpirie@deloitte.com

**Nizar Najib**

nnajib@deloitte.com

**Jamil Raza Syed**

jasyed@deloitte.com

#### Philippines

**Diane Yap**

dyap@deloitte.com

#### Thailand

**Usanee Lekvanichkul**

ulekvanichkul@deloitte.com

#### Singapore

**Peter Baldock**

pbaldock@deloitte.com

**Surasak Suthamcharu**

ssuthamcharu@deloitte.com

**Claude Illy**

claudeilly@deloitte.com

**Thavee Thaveesangsakulthai**

tthaveesangsakulthai@deloitte.com

**Kang Yong Wee**

yonkang@deloitte.com

#### Vietnam

**Thinh Pham**

thpham@deloitte.com



Research undertaken for Deloitte by  
Arbor Square Associates  
Second Floor  
64 Borough High Street  
London SE1 1XF  
United Kingdom

Tel: +44 (0) 20 7407 0020  
Email: [info@arborsquare.com](mailto:info@arborsquare.com)  
[www.arborsquare.com](http://www.arborsquare.com)



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