Islamic Private Equity Opportunities in the Middle East

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- Next to the pure financial merits, in Islamic finance the PE is an understanding and agreement between the financiers and the entrepreneurs on :

  (1) ***how*** the money is put to work (contracts / structures used for the financing itself AND the going concern of the target company) and

  (2) ***where*** it is used (financial screenings and sectors excluded) and fits in the Islamic P/L sharing model and the way money should be used.

PARTNERSHIPS are considered to be the "natural habitat" of Islamic Finance

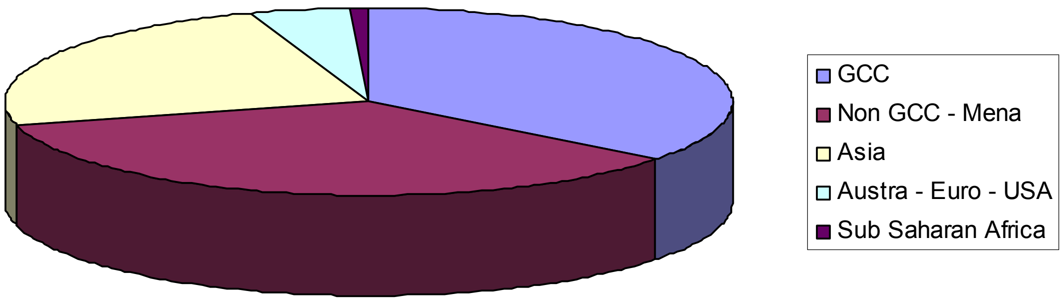
- **Half of the respondents of the Deloitte "MENA Private Equity Confidence Survey" (Jan 2009) did expect an increase in Shariah compliant funds due to a general growing awareness of Islamic finance in the region.**

- 8 of the 12 OPEC nations are within the MENA region: Algeria, Iran, Iraq, Kuwait, Libya, Qatar, K. Saudi Arabia, United Arab Emirates.

What does that mean on global scale

with the benchmark on 1.500 US$

Geographical distribution reported Shariah assets % – Global

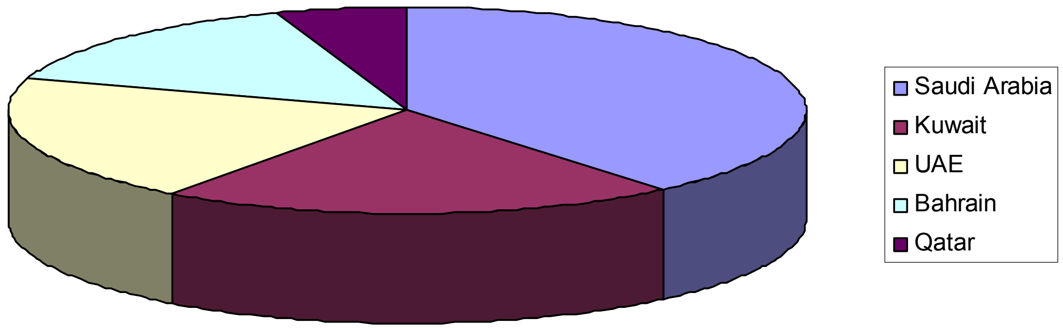


Source : FT - The Banker 2007/08

GCC Non GCC Mena Sub Saharan Africa	35,59 35,33 0,94	Asia Australia – Europe - USA	23,85 5,4

Distribution within the GCC

Geographical distribution reported Shariah assets % - GCC

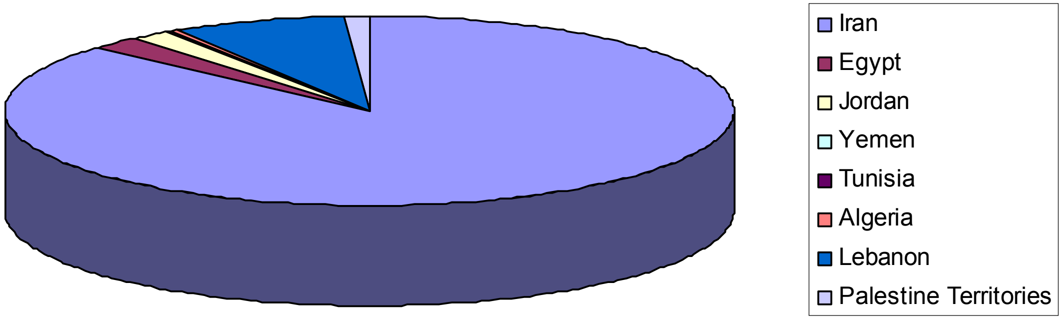


Source : FT - The Banker 2007/08

Saudi Arabia	**38,95**	**Bahrain**	**14,74**
Kuwait	**21,16**	**Qatar**	**5,31**
UAE	**19,85**		

Distribution rest of MENA

Geographical distribution reported Shariah assets % – Non GCC Mena

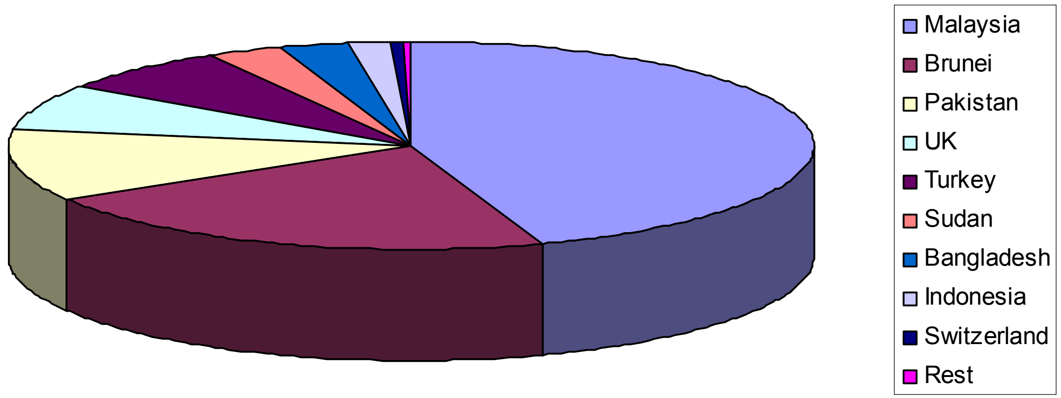


Source : FT - The Banker 2007/08

Iran	87,44	Tunesia	0,16
Egypt	2,18	Algeria	0,32
Jordan	1,49	Lebanon	7.78
Yemen	0,19	Palestine Territories	0,12

Distribution rest of the world

Geographical distribution reported Shariah assets - Rest



Source : FT - The Banker 2007/08

Malaysia	40,72	Sudan	2,80
Brunei	19,73	Bangladesh	2,71
Pakistan	9,96	Indonesia	1,39
UK	6,52	Switzerland	0,51
Turkey	6,30	Rest	0,27

Country listing Shariah compliant assets

1, Iran 2, KSA 3, Malaysia 4,Kuwait 5, UAE	6, Brunei 7, Bahrain 8, Pakistan 9, Qatar 10, UK

Source : FT - The Banker 2007/08

How does the GCC live the financial crisis ?

- In the GCC, the K. Saudi Arabia financial market was – due to regulatory standards – more balanced (and therefore less infected by the credit crunch) then the other regional players.

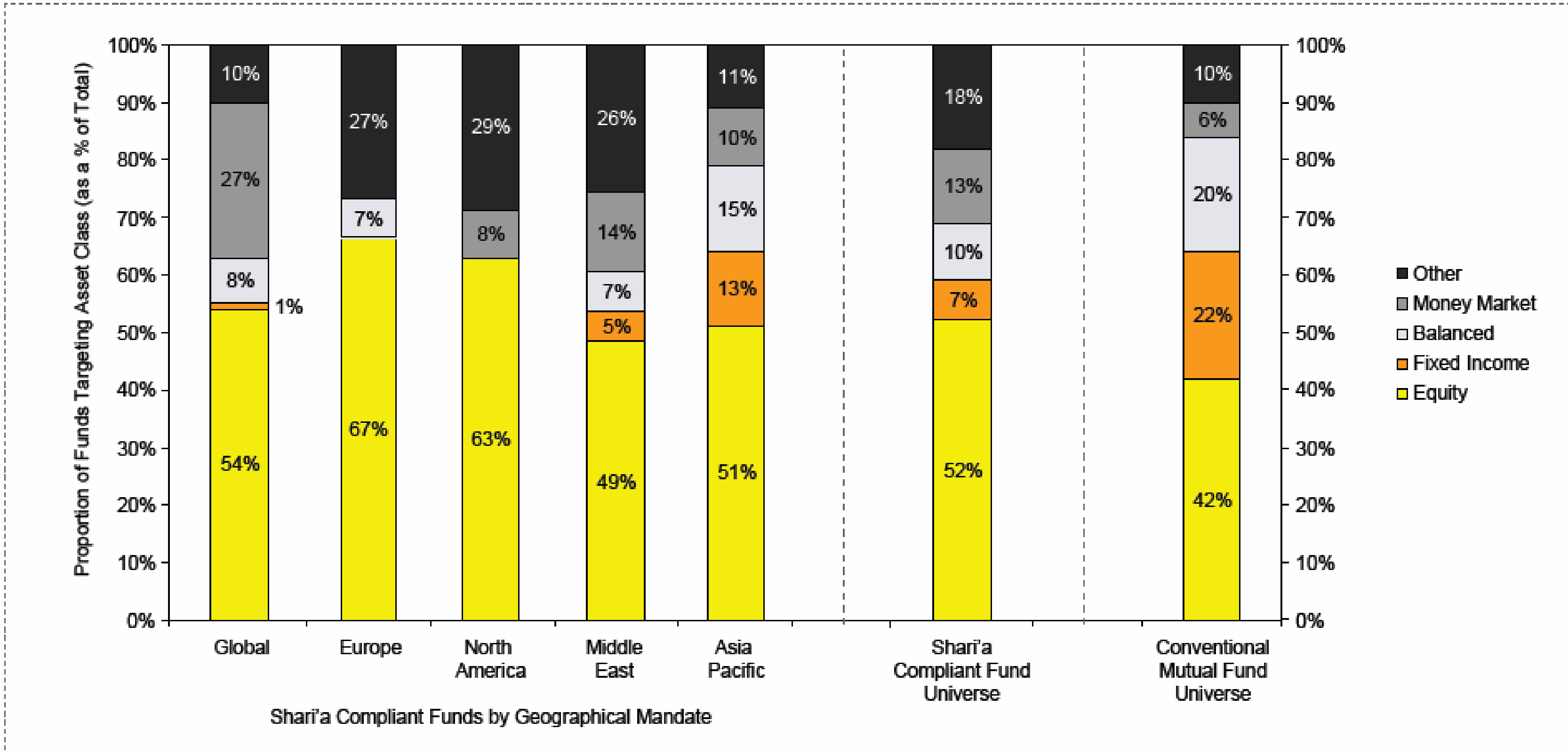
- Most “hit” are the UAE and Kuwait with large asset exposure to real estate (bankers, constructors and real estate promotors)

Is the GCC an “easy” market for Islamic Finance ?

- The Saudi investors also appear to be more sensitive to demand Islamic investments (“prefer” over “accepted” – Kuwait, Bahrain, Qatar to “neutral” - UAE) (note: Malaysia is “accepted” – Indonesia is “neutral”).

Target Asset Classes of Shari'a Compliant Fund Universe

Compared to the Global Conventional Mutual Fund Universe (% of funds targeting that asset class)



Ernst & Young – The Islamic Funds & Investments Report - 2008

Statistic global Islamic asset allocation: Allocations to real estate and private equity are considerably higher in Islamic investment compared to conventional Mutual Funds because the asset classes fit nice in Shariah compliant investment. The Middle East knew a significant over allocation on real estate.

Where is the GCC now - development

- The Middle East has traditionally been viewed as a source, rather than a target, of investment capital. Historically funds got raised before investment opportunities were found.

- Local economies tended to comprise out of government based employment together with a strong emphasis on agency-based business models, in which companies represent international brands at a local level rather than producing products themselves.

- Growing population – together with the need for diversification creates different needs and opportunities.

- Privatization and re-engineering of family business made the number of investment possibilities further grow considerably. Together with the present credit crunch, the usual capital overhang begins to narrow.

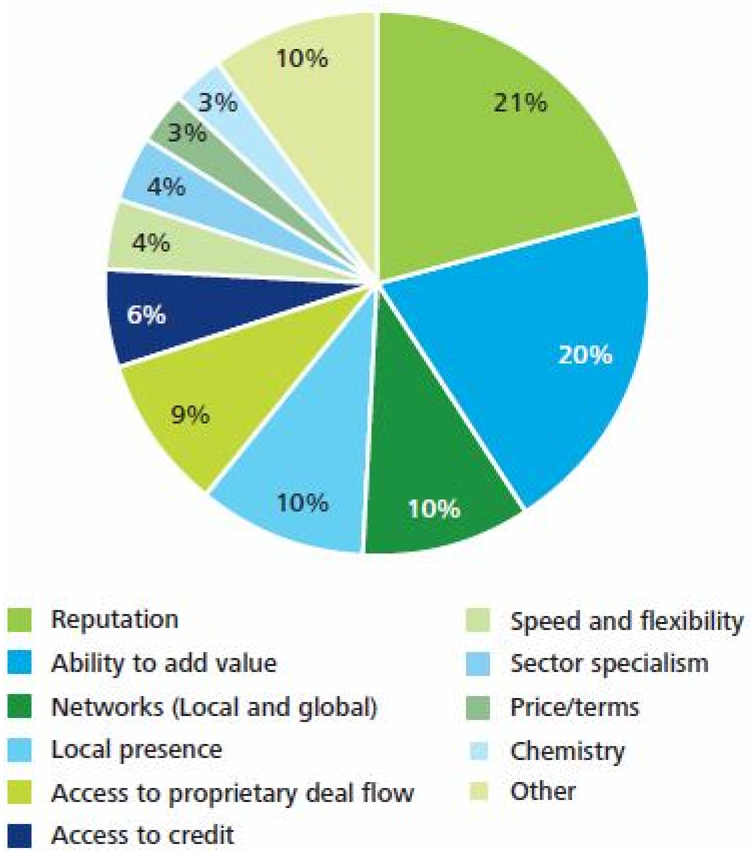
Tips for market entry ..

Several areas of focus are important in order to compete in the local market:

1. The key qualities in winning deals are reputation and providing value added services. Access to capital and local presence are of rising significance.

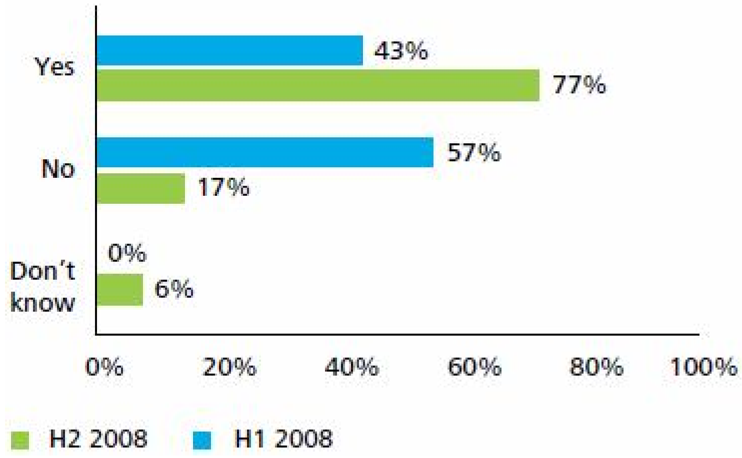
note: the average "deal ticket" appears to evolve from 28 upto 35 million US$

What do you believe are the most important competitive differentiators between private equity firms when it comes to winning deals?



Source: Deloitte – Mena Private Equity Confidence Survey – 2009

Going forward, do you expect to become more operationally involved with your portfolio companies?



Source: Deloitte – Mena Private Equity Confidence Survey – 2009

Tips for market entry ..

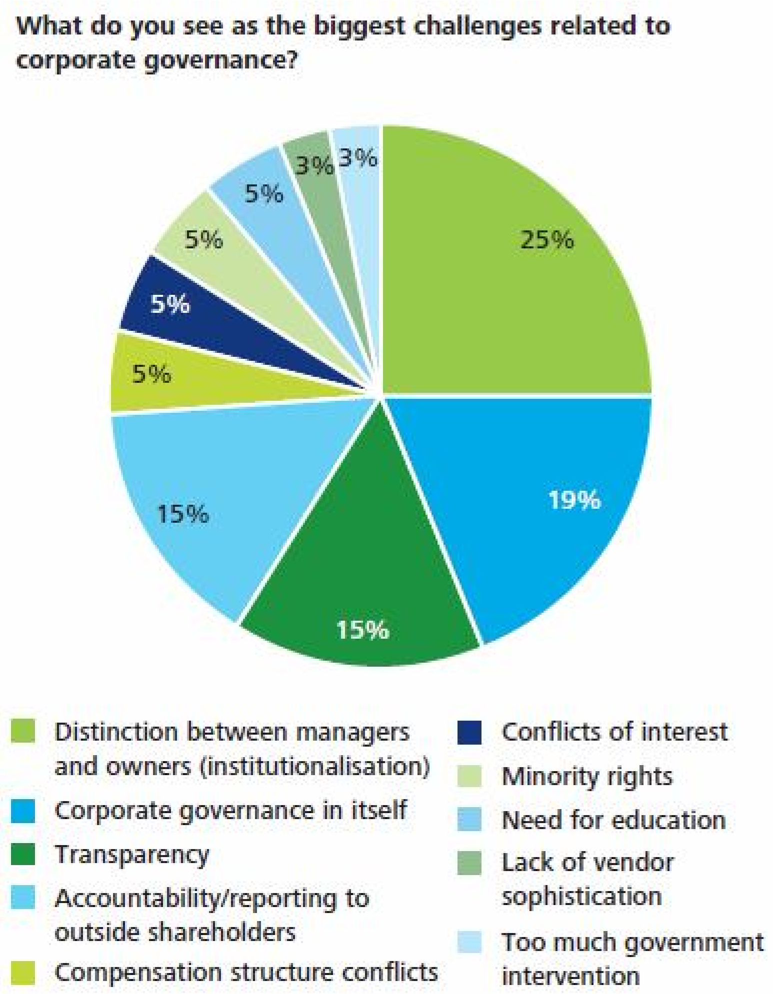
Several areas of focus are important in order to compete in the local market:

2. Corporate finance savvyness in order to clean up the balance sheet

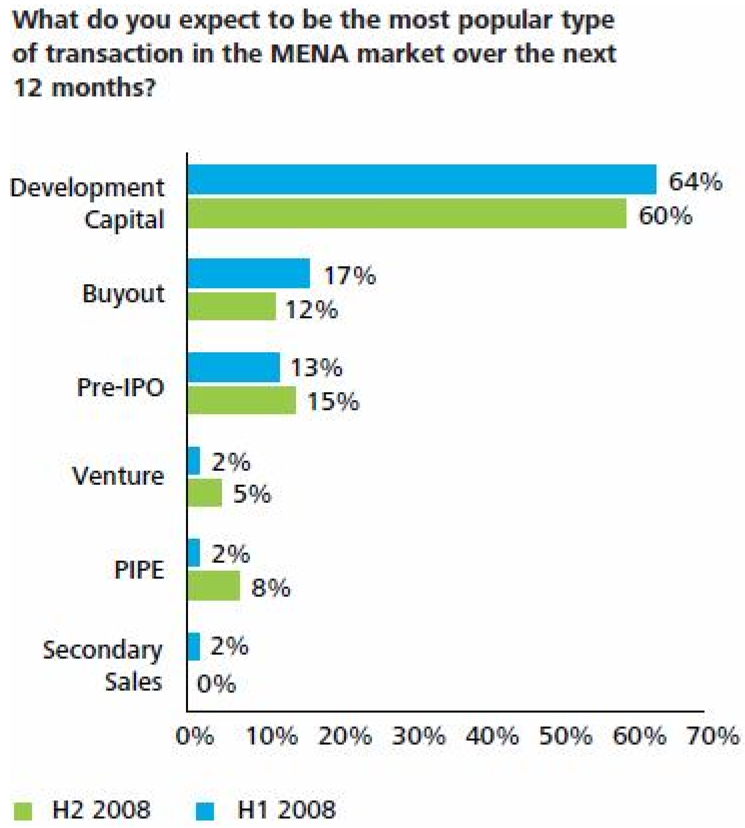
3. Corporate governance : strategic thinking and quality of information / transparancy – one of the big problems is that many companies have only been accountable to themselves in the past and are not used to have outside shareholders. If a good governance model is not yet in place from the outset, then PE investment could face a difficult time.

   In terms of fund strategies, more and more funds are seeking controlling stakes. While in 2005, only 3 percent of transactions were control buyouts, by 2008, some 26 percent of transactions volume and half of transactions values were control buyouts.

4. Timeline for due dilligence and regulatory constraints are further exisiting hindrances, next to valuation disputes, disagreement on exit strategies and investors rights and privilages.



Source: Deloitte – Mena Private Equity Confidence Survey – 2009



Source: Deloitte – Mena Private Equity Confidence Survey – 2009

How was the fundraising in 2008 ?

Middle East private equity fund managers raised a record $6.4 billion in 2008. This is up more than 10 percent over 2007 and more than double the amount raised in 2005.

Large size funds are mostly responsible for this growth, with the average fund size in 2008 being US$258 million, compared with US$213 million in 2007 and just US$177 million in 2006.

Present liquidity results from (1) an increase in fundraising and (2) a decrease in deals, with the number of private equity investments dropping by 22 percent between 2007 and 2008, as well as the total investment size, which fell by 31 percent.

Regional players are experiencing an increasing request for funds with a mandate that includes MENA, to expand and include South Asia, Southeast Asia and/or Africa.

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Sectors of focus :

- ***Transport***
- ***Health care***
- Oil & gas
- Financial Services
- *Construction*
- ***Consumer***
- ***Power & Utilities***
- Various

- Successfull countries over the last four years were : Saudi Arabia, Egypt and UAE.
- Also Jordanie and Turkey managed to be included in some of the fund strategies (proxemity – specialised investments).

The near future

The regional funds are cash rich with US$11 billion in capital under management yet to be deployed.

This “dry powder” gives the PE sector a strategic opportunity vis-à-vis target companies, given the present limited scope of other funding sources available in the current global financial environment.

The large funds will have more difficulties for closing.

Exits will be more difficult due to tight financial markets (less IPO possibilities ...). The funds will have to sit longer on their investments and grow them further. On the other hand their will be a relative abundance of opportunities. Midsize and family owned business will gain on importance.

The increased attention from international players that the GCC region witnessed in 2007 is expected to be disrupted only temporary.

Sustained robust economic performance of the GCC region most propably will attract additional allocation from international institutional investors over the medium term.

Note: The population of the MENA region comprises about 6% of the total world population. It is equivalent in number to one third of the population of the People's Republic of China, is almost equivalent to the population of the European Union, and is one and a quarter times larger than the population of the United States.

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