



MedFunds 2011:  
An overview of Private Equity  
in the Mediterranean region  
(Abstract\*)



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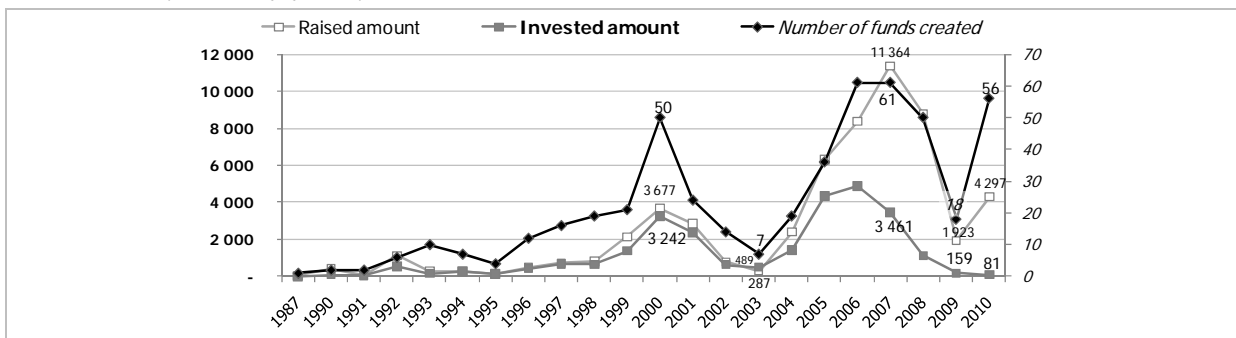
\* Full report available upon request

# 1. Summary: overview of PE in the Mediterranean

## A powerful method for financing small and medium enterprises in the Mediterranean

Private Equity (or *PE* in this report) has developed considerably in the South and East of the Mediterranean (*MED*<sup>1</sup>) since the beginning of the 2000s, in particular in the Arab countries, where it was very little used previously. The uneven evolution in the number of funds created, the amounts raised and especially invested (Figure 1) owes a great deal to a rather chaotic international context, over a decade rich in events for the region<sup>2</sup>. The strong growth in PE between 2003 and 2007 was followed by a regression in 2008-2009, before a leap forward in 2010.

Figure 1. Funds created and amounts raised per annum in the MED region, excluding large international funds (by year of creation. Source ANIMA-MedFunds)



ANIMA has identified more than 500 funds investing in SMEs in the MED region, nearly 300 of which were still active at the beginning of 2011. The southern and eastern rims of the Mediterranean have thus been able to attract nearly 60 billion dollars since 1990 (amounts raised, 89% of which since 2000) and finance in this way nearly 5,000 companies in the amount of 26 billion dollars (amounts effectively invested, 84% of which since 2000).

While for Israel, it represents the continuation of a financing practice started at the end of the 1980s, for the Arab countries and Turkey, PE is a new and probably major phenomenon in for the modelling of the industrial fabric. What has been raised or invested in these countries since 2005 (Figure 2) represents 80% of historic PE stock (against 48% for Israel) and 60% of effective investments (against 23% for Israel).

Figure 2. Shares of the investment amounts mobilised since 2005, by region concerned (as a percentage of the total stock 1985 -2011. ANIMA-MedFunds)

Host region	% of the stock	% of targeted amounts	% of raised amounts	% of invested amounts
Israel		53%	48%	23%
Maghreb		92%	87%	62%
Mashreq		85%	72%	54%
Turkey		91%	90%	86%
MED in general		96%	90%	46%
MENA & emerging countries		94%	92%	89%
Total		81%	73%	48%

<sup>1</sup> MED-11 (when it is not specified), that is: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Palestine and Turkey.

<sup>2</sup> Internet bubble bursts, Turkish financial crisis, 11th September 2001 terrorist attacks, the wars in Iraq and Lebanon, Israeli-Palestinian conflict, world financial crisis, virtual bankruptcy of the Emirates, the Arab revolutions...

After a slowdown in 2009, investors have rapidly taken up their positions again, launching 56 new funds in 2010 (Figure 3), that is a level of activity never previously achieved for the MED-10 countries. Despite the Arab revolutions, the year 2011 would appear equally propitious, with 23 funds in the process of creation. Israel, on the other hand, seems more durably affected, with a drop in the number of funds created in both 2010 and 2011.

Figure 3. Funds launched in 2010-2011 per host region (ANIMA-MedFunds)

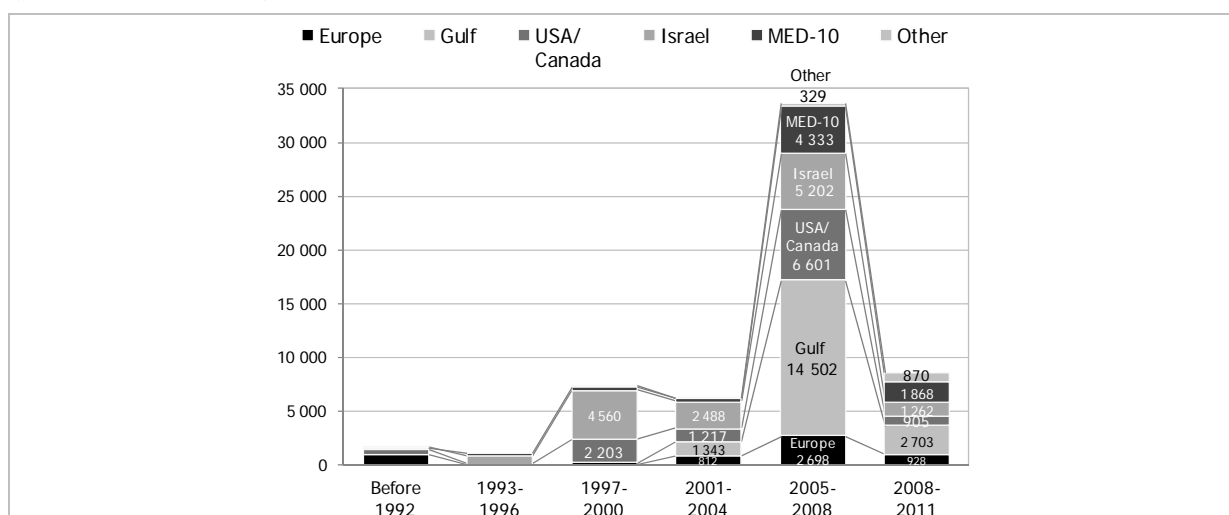
Host region	Funds created in 2010	Amounts targeted - 2010 (\$m)	Announced funds for 2011	Amounts targeted - 2011 (\$m)
Maghreb	14	3 672	1	68
Mashreq	13	1 817	6	734
MED	4	2 808	1	150
MENA	8	3 500	7	3 850
MENA & emerging countries	6	3 700	5	2 650
Israel	6	1 393	2	1 120
Turkey	5	927	1	20
<b>Total</b>	<b>56</b>	<b>17 818</b>	<b>23</b>	<b>8 592</b>

### The arrival of new players

The MedFunds 2008 study reflected a heavy concentration of investment funds in certain countries of the region (Israel of course but also Egypt and Morocco, and to a lesser extent, Tunisia), and the virtual total absence of funds dedicated to other countries. This reality has changed as all the MED countries are concerned by PE activities today, despite unequal treatment (Syria, Libya). More than 120 new funds have been created since 2008, with new diversified strategies: fewer large generalist funds, more sectoral funds, and the emergence of the early stage funds in certain countries.

The origin of the fund managers has also greatly evolved (Figure 4), with a particular drop - as spectacular as the previous rise - in the commitments emanating from the Gulf States, a relative drop of North American or Israeli funds, a sizeable increase from Europe (rising since 2008 from 10 to 14% of commitments) and finally a strong growth in funds located in MED, which is very encouraging for small businesses in need of a certain proximity.

Figure 4. Amounts raised by period and investor origin (\$M), excluding large international funds (ANIMA-MedFunds)



Nevertheless, in stock, the Gulf States (United Arab Emirates in the lead), Israel and the United States remain the main PE investors in the region.

### Professionalisation of private equity in the Mediterranean

Israel, carried by the boom in information and communication technologies (ICT), very soon concentrated on *early stage* investments, mainly at national level and oriented towards technological

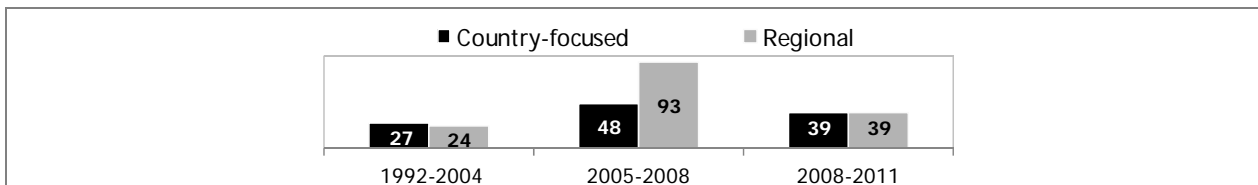
innovation (internet, biotech, mobiles, etc.). On the contrary, private equity in the other MED countries was marked, until 2008, by a *predominance of large opportunist funds* insofar as the sectors and the countries targeted were concerned<sup>3</sup>: a limited number of investments, nevertheless of a considerable size, has been recorded in heavy industry, real estate and energy.

This trend is not belied by the ANIMA-MedFunds data assembled for the period 2008-2011. Nevertheless, a change in the direction of PE towards a greater spatial concentration and sectoral specialisation is to be observed, suggesting that PE in the MED has reached a certain maturity.

### Increase in country-focused funds

Prior to 2004, PE funds were limited geographically to conserve a certain proximity with their portfolio companies or to concentrate on those markets with more favourable legislation, such as Egypt.

Figure 5. Geographical coverage of funds created (by period and excluding Israel. ANIMA-MedFunds)



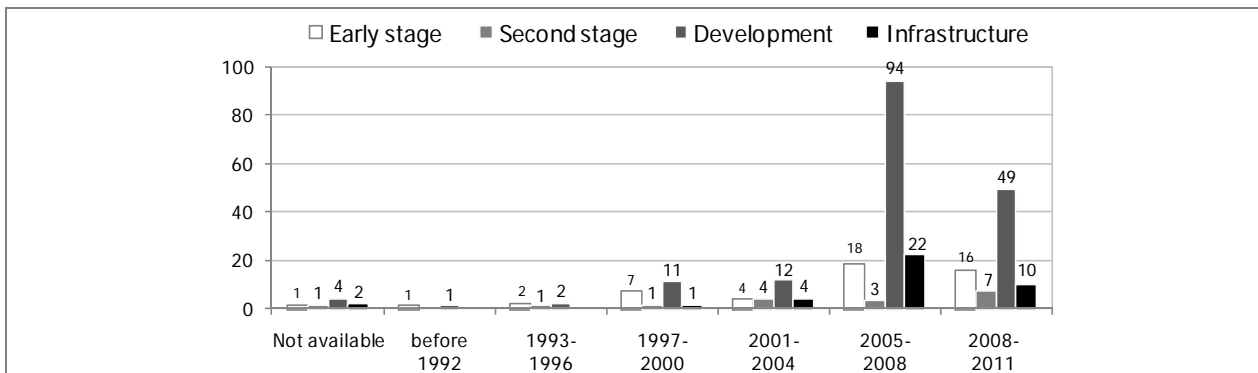
Regional funds were widely favoured during the boom years 2005-2008, especially with the arrival on the market of funds from the Gulf States targeting the MENA region in its globality, Russian funds attracted by Central Asia (and Turkey), or American or European funds showing an opportunist interest in a few companies of the region.

As a result of the decline in the players from the Gulf, the most recent period shows a relative regain of the country-focused funds. This phenomenon may also be due to the growth in early stage investments, which implies more interaction (and thus proximity) with invested start-ups.

### More activity turned towards the upstream (early stage)

Until 2008 (and excluding Israel), *early stage* or *second stage* activities represented a marginal activity for funds in their majority dedicated to safer methods of investment (buyout, infrastructure etc.). For different reasons, several funds have turned more towards upstream investment since : public insistence on innovation strategies and start-ups, presence of MED investors wishing to focus on their own country, development of specialised incubators and networks (business angels etc.)<sup>4</sup>, finally the already-mentioned creation of country-focused funds.

Figure 6. Number of funds per investment stage (excluding Israel. ANIMA-MedFunds)



<sup>3</sup> MedFunds survey: overview of Private Equity in the MEDA region, ANIMA, 9- 2008.

<sup>4</sup> The Medibtikar and Invest in Med programmes, carried out among others by ANIMA, have been closely associated with these developments: creation of a business angel network in Morocco, Jordan, Tunisia, support for the setting up of a Réseau Entreprendre International, MedVentures initiative etc.

Hence, 28% of the funds created between March 2008 and March 2011 are dedicated to *early* and *second stage* investments, against 16% for the previous period<sup>5</sup>. This progression (Figure 6) is concomitant with the relative drop in funds dedicated to growth, buyout or infrastructure.

### A specialisation of the profession

The funds which invest in the Mediterranean remain largely opportunist or multisectoral. Only 30% of the funds are dedicated to specific sectors.

Nevertheless, while in 2008, sectors had a very large definition - for example, public works, real estate or the hotel industry- today the sectors are treated in an increasingly targeted fashion. For example, since 2009 there exist funds devoted to the *cleantechs* (Green Energy Infrastructure Fund, Crescent Clean Energy Fund), *agritechs* (OCP Innovation Fund for Agriculture), telecoms (Diva Sicar), financial services (Saffar Financial Infrastructure Fund) or even medical services (Shefa MENA Health Fund). The funds dedicated to new technologies, along with the creation of funds dedicated to the early stage, are also growing rapidly.

### Volumes twice as large for the second generation funds

The private equity sector is indisputably gaining in maturity. Second generation or third generation funds are no longer rare (61 active funds in the region have already been renewed at least once).

Excluding Israel, Europe and the United States, which profit from longer experience, six funds from the Gulf States, three from the Maghreb (Moussahama, AfricInvest, Upline Investments) and three from the Mashreq (Horus, Technology Development, Middle East Real Estate Opportunities) have already been renewed. The commitment targeted by these second generation funds is generally twice that of their forerunner (Figure 7).

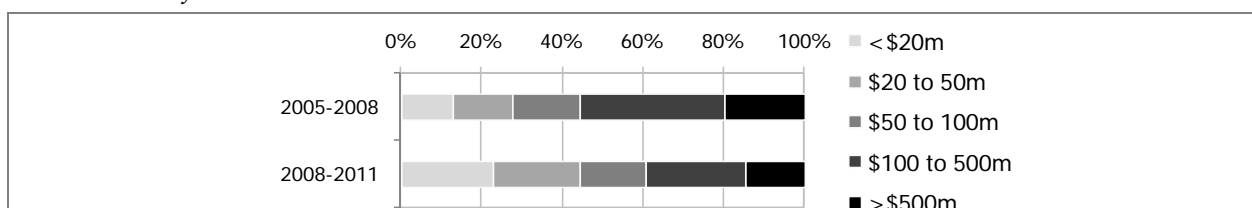
Figure 7. Average commitments targeted by generation of funds and host region, excluding large international funds (in \$m. ANIMA-MedFunds)

Region or country	1 <sup>st</sup> generation	2 <sup>nd</sup> generation	3 <sup>rd</sup> generation	4 <sup>th</sup> generation	5 <sup>th</sup> generation
Mashreq	32	99	580		
Maghreb	128	270	79		
Turkey	93	395			
Israel	62	116	140	220	433
MED	60	200			
MENA	243	454	500	4 000	
MENA & emerging	766	1 064			
General (average)	<b>106</b>	<b>200</b>	<b>175</b>	<b>535</b>	<b>433</b>

### Fewer "mega-funds"

The period 2008-2011 is characterised by a reduction of funds greater than 100 million dollars, the first to be affected by the crisis (Figure 8).

Figure 8. Size of the funds by amount raised and by period of investment, excluding Israel and large international funds (ANIMA-MedFunds)



<sup>5</sup> Among them may be quoted: Middle East Venture Partners Fund (regional), Abraaj RED Growth Fund (regional), Dayam and Maroc Numeric Fund (Morocco), the Tunisia Telecom fund, Diva Sicar (Tunisia), Innovent and 212 Venture Capital Fund (Turkey).

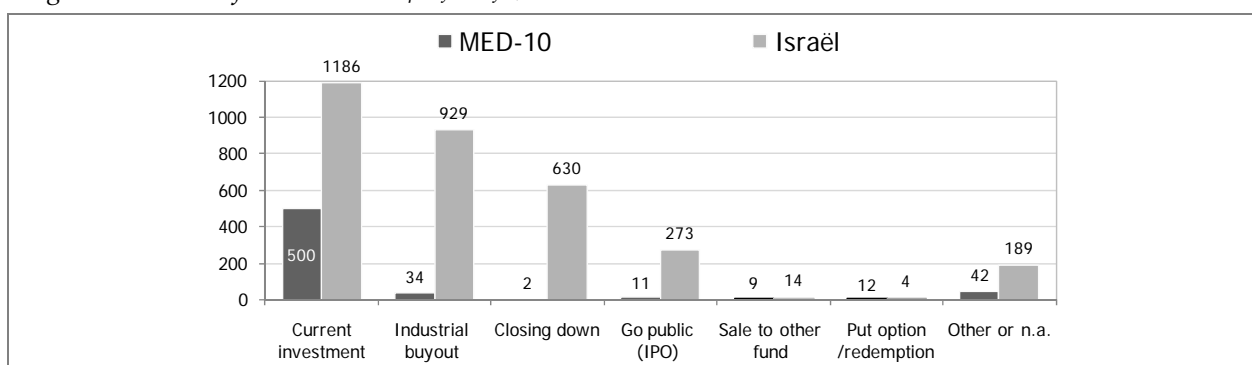
It is difficult to know whether these large generalist funds will one day rediscover the hegemony that they enjoyed between 2005 and 2008. These funds may further concentrate on buyout and infrastructure activities, leaving seed, venture and growth capital to more specialist funds.

## Exit and profitability

### Exits still rare

The exits achieved are still rare in the Arab countries and Turkey, where the majority of funds were created after 2004. Of course, this is not the case in Israel (Figure 9). A majority of the exits are industrial (sale).

Figure 9. Status of investments (portfolio of 3,839 businesses. ANIMA-MedFunds)



On average, 62% of the "historic" Israeli portfolio has been the subject of an exit, against only 18% excluding Israel, which bears witness, both to the youth of PE in the Arab countries and Turkey and perhaps also of certain difficulties in pulling out from portfolio projects in these countries. The exits envisaged less often take the high road of going public and more often the sale of the business to the founders or to another investment fund (Figure 10). Industrial buyouts represent, however, the most frequently envisaged option.

Figure 10. Exits envisaged depending on the stage of investment (sample of 269 businesses excluding Israel. ANIMA-MedFunds)

Type of Exit	Industrial buyout	Go public (IPO)	Sale to another fund	Put option (sale to owners)	Closing down
Investment stage					
Early stage	17	7	15	12	5
Second stage	7	6	6	6	1
Development	44	50	39	32	3
Infrastructure	7	5	4	2	0
<b>Total</b>	<b>75</b>	<b>68</b>	<b>64</b>	<b>52</b>	<b>10</b>

### High expectations in terms of profitability

The gross IRRs expected are on average in the region of 23% (Figure 11), with lower objectives for those funds dedicated to infrastructure (19%). This average would seem fairly promising when one considers the general expectations of investors in emerging markets: according to the EMPEA survey 2011<sup>6</sup>, only one quarter (23%) of investors expect a return of more than 21% (net, nevertheless) on their portfolio invested in emerging countries. This share is reduced to 9% as far as global portfolios are concerned.

Figure 11. Gross IRR expected, depending on the stage of investment (sample of 93 excluding Israel. ANIMA-MedFunds)

Investment stage	Early stage	Second stage	Development	Infrastructure	Total
Average IRR expected	23%	25%	23%	19%	23%

<sup>6</sup> Emerging markets private equity survey 2011. EMPAE/Collier Capital, Avril 2011

## A globally favourable PE context

Hence the situation observed in the MED region corresponds relatively well to global PE trends (according to the EMPEA 2011 survey):

- Investors in funds (limited partners) seek to overweight emerging countries, whence is likely to come the main part of global economic growth (their exposure to these markets is likely to rise from 11-15% in 2009-2010 to 16-20% in 2011-2012);
- A little more than one half of these investors consider that the expertise and the abilities of the fund managers (general partners) of emerging countries has been strengthened and that the potential risk/gain ratio (return) is favourable to emerging countries compared to developed countries;
- Similarly, a majority (54%) of investors hope for net profitability in excess of an annual 16% on their portfolio placed in emerging countries (only 33% of investors have the same prognosis on their global portfolio); for a quarter of them, the objective is even 21% and more of net profitability.

Of course, these expectations are aimed in priority at the BRICS (Brazil, Russia, India, China, South Africa). But the MENA countries, prior to the Arab revolutions underway, were not the worst placed, with an attractiveness score which doubled in 2011 compared to 2010 (38/100) and a good position of Turkey (51/100). According to EMPEA, 16% of the investors in MENA (and 19% in Turkey) in January-February 2011 (moment of the survey) would have liked to increase their exposure in this region and 7% (9% in Turkey) start to invest here. Only 7% of investors in MENA (and 3% in Turkey) would have liked to reduce their projects, or pull out.

Similarly, the worries of investors concern the existence of competent fund managers, the small size of the *deals* and, as may well be imagined, the regional political risk (Figure 12).

On the other hand, company valuations are considered to be attractive, the legal framework is overall acceptable and the exits are not judged to be more difficult than elsewhere... The region would thus appear, according to several criteria, as *less "exciting", but in the end more re-assuring* than certain fashionable destinations such as China or Asia in general.

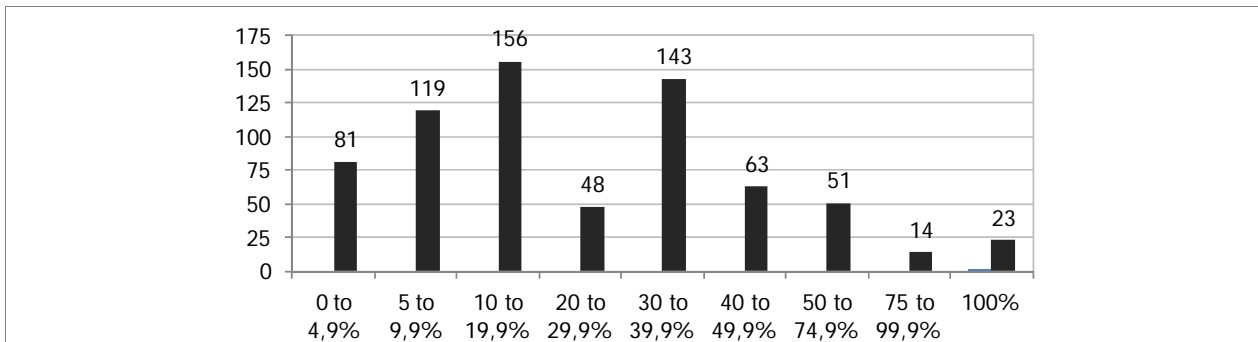
Figure 12. Dissuasive factors for investment by region (EMPEA 2011)

Country/ region	Limited number of established GPs	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/ tax environments	Political risk
MENA	39%	33%	2%	14%	12%	32%
Turkey	28%	23%	5%	12%	7%	12%
China	7%	7%	45%	14%	31%	24%
India	14%	0%	58%	14%	8%	11%
Asia (Other)	38%	19%	4%	35%	12%	19%
Russia/CIS	25%	12%	2%	17%	30%	63%
Central & Eastern Europe	19%	16%	5%	27%	11%	16%
Brazil	11%	3%	31%	11%	11%	3%
Latin America (excl Brazil)	32%	19%	16%	10%	10%	23%
Sub-Saharan Africa (inc S. Africa)	47%	24%	2%	14%	12%	39%

## A significant impact on jobs

Involvement in the portfolio companies is important in financial terms (Figure 13), since in 12.6% of the cases, the stake is a majority holding, in 29.5% of the cases, it goes from 30 to 50% of the capital (blocking minority) and in 29.2% of the cases, it goes from 10 to 30% of the capital. Only 28.7% of investments are very diluted (less than 10% of the capital).

Figure 13. Distribution of percentages of stockholdings in the invested businesses (out of around 700 cases, ANIMA-MedFunds)



Private equity is not, however, limited solely to financing companies. It also involves different forms of assistance to management. Recruited on the basis of their track records, fund managers act just as professional and demanding shareholders do. Their experience, their strategic vision and their know-how enables them to contribute actively to the development of business.

The effects of this intervention result in turnover growth, profit improvement and job creation. More diffuse, PE also helps the transfer of know-how, the creation of synergies and an opening onto the international scene.

Out of the sample of 150 businesses monitored in the context of the MedFunds 2011 survey, PE has created *more than 11,500 net jobs in the region, 72% of which by investments smaller than 5 million dollars*. By extrapolating the some 3,000 profitable investments made to date, *nearly 330,000 jobs are likely to have been created*, with an average of 100 jobs per case and around 30,000 a year since 2008.

### The creation of around \$20 billion of activity

In parallel, and with the same methodological reservations, the some 5,000 companies invested in in the MED region would have brought around 20 billion dollars of extra annual turnover (T/O) for the past 20 years, with an average of 1.8 billion for the past 3 years.

The sample of companies monitored has seen their annual turnover increase by 42% following the intervention of the fund. The more upstage the intervention of the fund, (seed, VC, second stage), the stronger the expected growth is (dropping from 416% for the early stage to 32% for the development stage).



## 2. The full report

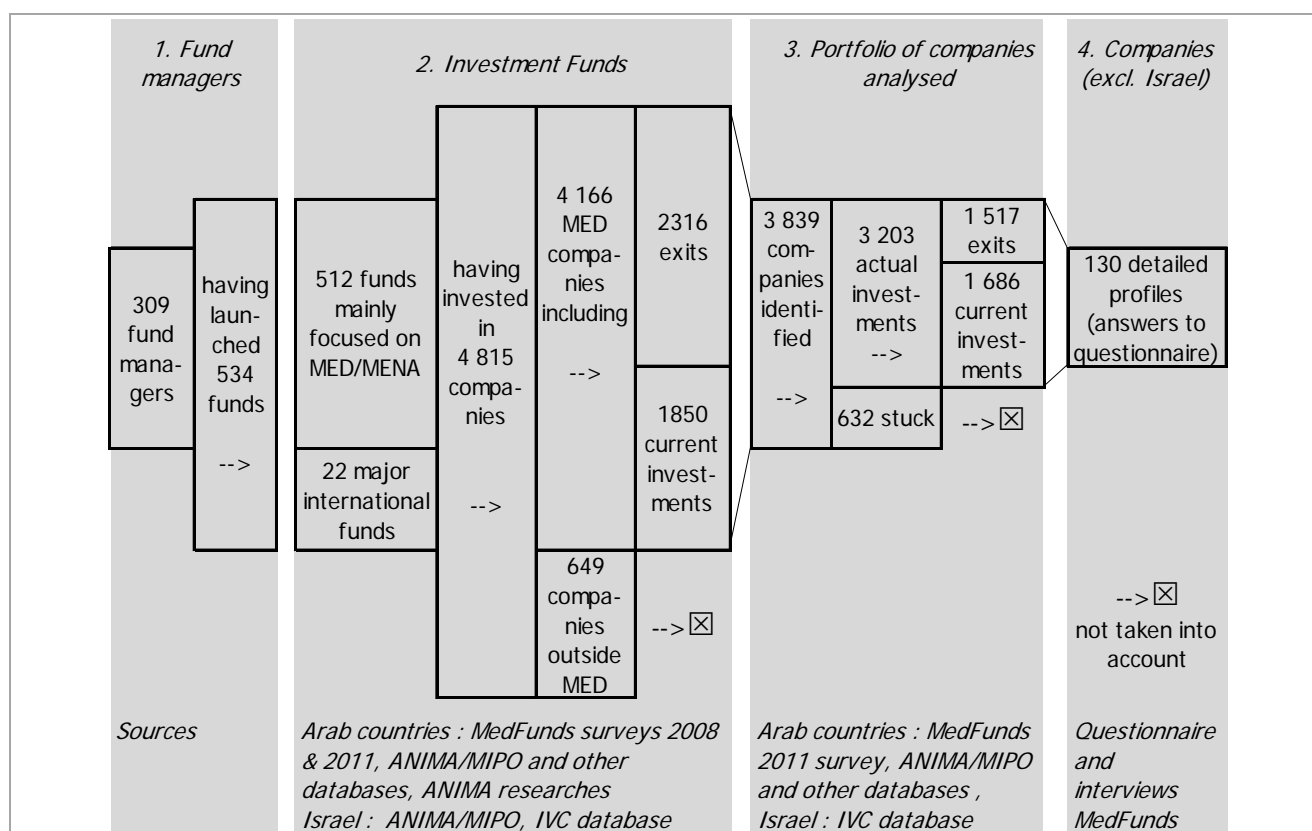
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## The MedFunds 2011 data base

The MedFunds 2011 report relies on 4 data bases (fund management companies, funds, portfolio of these funds, samples of companies from these portfolios):



## To obtain further information

The MedFunds full report is available upon request at : [medfunds@anima.coop](mailto:medfunds@anima.coop) (free of charge)

ANIMA remains at the disposal of businesses, funds or consultants interested in carrying out analyses by exploiting its data base, considering that it respects the confidentiality to which the network has committed itself to fund managers and subscribed data bases. For any information or comment: [contact@anima.coop](mailto:contact@anima.coop)



The Invest in Med programme aims at developing sustainable trade relationships, investments and business partnerships between the two rims of the Mediterranean. 75% funded by the European Union over the 2008-2011 period, it is implemented by the MedAlliance consortium, which associates economic development organisations (ANIMA, leader of the programme), CCIs (ASCAME, EUROCHAMBRES), and business federations (BUSINESSMED). The members of these networks, as well as their special partners (UNIDO, GTZ, EPA Euroméditerranée, World Bank, etc.), bring together a thousand economic players - mobilised through pilot initiatives centered on key promising Mediterranean niches. Each year, a hundred operations associate the 27 countries of the European Union and 9 Mediterranean partner countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia.

## MedFunds 2011: an overview of Private Equity in the Mediterranean region

### SURVEY N°17 / May 2011

Manal Tabet, Bénédicte de Saint-Laurent, Samir Abdelkrim - ISBN 978-2-915719-55-0 ©ANIMA 2011.

The private equity industry has developed greatly in Southern and Eastern Mediterranean countries since the 2000s, in particular within Arab countries, where it was rather confidential previously. Today, nearly 309 management companies are targeting the MED region and intervene via 534 investment funds. This growth, partly affected by the 2008 financial crisis, is now consolidating:

- The region reinforces its attractiveness, with more than 120 new funds created since 2008, and a diversification in the origin of operators, a drop in commitments from the Gulf States, North-America and Israel (which nevertheless remain the main investors in the region in terms of stocks accumulated since 1990), a significant increase of European involvement and a strong growth in the funds located in MED countries.
- The management teams and the investment funds are gaining in experience: an inflection of the capital-investment towards more spatial concentration and sectoral specialisation is clearly observed, while the second generation funds are multiplying.
- The investment funds contribute more and more to business development, by supporting the various stages of business roll-out. While investors still prefer growth capital and buyouts, upstream investments (*early stage*) are growing.
- The impact of PE is translated for the majority of the companies invested in into growth in staff recruitment, turnover and financial results: over 15 years, PE appears to have created *nearly 330,000 direct jobs* and added approximately *20 billion dollars in annual turnover*.

All things considered, since 1987 the MED countries have succeeded in attracting nearly 60 billion dollars (raised amounts) and in financing through this capital injection nearly 5,000 companies at a minimum level of 26 billion dollars (equity invested to date). Nevertheless, the development of the PE industry cannot go on without a greater transparency and a stronger networking of management companies: the development of benchmarks is necessary to attract more investors, whereas a representation of the industry via federations would make it possible to influence the regulations. In addition, it seems essential to support initiatives aiming at facilitating *early stage* funds (strongest creators of growth and jobs) by mitigating their risks.

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