

Private equity offers companies in emerging markets crucial access to smart, patient capital that fuels growth and enables persistent improvements in performance

Since 2005, private equity¹ firms have invested more than US\$108 billion in companies in emerging markets, ranging from small entrepreneurial enterprises to mature companies seeking capital to expand operations or market reach. While similar to the model in North America and Europe, the particularly additive role that private equity plays in emerging markets showcases the benefits the asset class can bring to both companies and economies.

In many countries with underdeveloped financial markets, private equity is the sole source of capital available to enterprises to grow their businesses—debt or public equity generally being otherwise unavailable or prohibitively expensive. In addition to filling a crucial financing gap, private equity investors also provide long-term stewardship that enables companies to achieve their strategic goals and build value—from guiding a growing company's national or international expansion plans, or turning around a poorly performing firm by focusing on operational or governance improvements, to preparing a company for a public listing.

1. **Private equity fills a crucial financing gap by providing companies in emerging markets with access to growth capital otherwise unavailable.**
2. **Private equity investment entails long-term stewardship of the company, often evolving to an advisory role or partnership that survives long after the investor has exited the investment.**
3. **Private equity firms offer more than mere capital; PE investors advise company management on goal setting and strategic and operational decision-making—leveraging sector expertise and deep networks—and guide implementation of enhanced corporate governance.**

PRIVATE EQUITY PROVIDES CRUCIAL ACCESS TO CAPITAL THAT FUELS GROWTH OF EM ENTERPRISES

In many countries, capital markets remain underdeveloped, and unfavorable lending terms put domestic debt out of reach. Private equity fills this void by investing in markets and companies that exceed the risk appetite of domestic or international institutions. Examples abound of emerging market companies that, with the injection of PE capital, expanded into new markets, launched new products, and achieved remarkable revenue growth.

Numerous studies illustrate that PE investment fuels R&D and product development, as well as employment. In India, PE-backed technology companies **increased R&D spending** by 58% between 2000 and 2005, versus 29% for their listed peers.² More than 50% of PE-backed companies in South Africa **launched new products** subsequent to PE investment.³ Among the 480 investees in the PE funds portfolio of the International Financial Corporation (IFC), the investment arm of the World Bank, **employment growth** exceeded market averages in every region, sometimes by as much as 4x. For example, IFC's Sub-Saharan African investees grew jobs by 11.7% from 1998-2006, versus a regional average of 2.5%.⁴ Among PE-backed family businesses in the Middle East, **enterprise value doubled** over the average 3.5 year life of the PE investment.⁵

"It's very much private investment, including private equity, which is responsible for the growth that we've been enjoying."
—Mahmoud Mohieldin,
Egypt's Minister of Investment.

¹ References to Private Equity are inclusive of Venture Capital.

² Venture Intelligence, 2007

³ SAVCA/Monitor study, 2005

⁴ IFC 2007; International Labor Organization World Employment Report 2004-2005

⁵ How Do European Private Equity Investors Create Value?, Ernst & Young, 2006

A sampling of companies that have achieved dramatic organic growth with PE investment includes the following:

- African telecom firm **Celtel**, founded by entrepreneur Dr. Mo Ibrahim in 1998, received multiple rounds of PE investment from a consortium of PE investors. Celtel grew from a license hunting entrepreneurial team to a market leader serving 30% of Africa's population, with more than six million customers and US\$1 billion in revenues. The corporation was acquired in 2005 by Kuwaiti mobile operator MTC for US\$3.4 billion.
- With an injection of private equity capital in 2004 (the largest management buyout to date in Malaysia), **Unza Holdings** expanded beyond its home country operations to become South East Asia's largest independent manufacturer and marketer of personal care products, with 48 brands and 275 products. With support from investors Actis and Standard Chartered Private Equity, Unza acquired an Indonesian competitor and built two additional factories.
- An investment from Warburg Pincus helped India's **Bharti Tele-Ventures (now Bharti Airtel)** make the transition from a relatively little known Indian telecom to one of the country's largest companies, with a market capitalization of about US\$1.7 billion. Although India's telecom industry presented regulatory challenges, Warburg's commitment enhanced Bharti's value; sales nearly quadrupled in three years, rising from US\$46.7 million to US\$162.2 million.

PRIVATE EQUITY IS PATIENT CAPITAL

Private equity firms are long-term investors, retaining their ownership in portfolio companies—and in many cases building on their investment—over a period of three to five years, on average. The 2008 World Economic Forum study on PE's global economic impact revealed that the holding period for 60% of companies receiving PE capital was five years or more. Some private equity firms investing early in a company's lifecycle will remain a partner over a longer period, even after divestment, as in the case of Brazilian valve manufacturer **Lupatech**. Brazilian PE firm CRP first invested in the company in 1984, and over a period of nearly 10 years worked with the company to help grow its revenues ten-fold. Although CRP exited its investment in 2003, the PE firm continues to advise the company through a seat on Lupatech's Board of Directors.

PRIVATE EQUITY IS SMART CAPITAL

More than mere capital, PE firms offer investees strategic guidance and operational expertise, as well as enhanced corporate governance. PE firms have a keen interest in the success of each investee, as a percentage of their own capital is at risk.

PE investors build their portfolios around their sector expertise, leveraging their networks and experience to work closely with company management in building growth and turnaround strategies. Unlike other kinds of asset managers, private equity investors sit on boards of directors, have a voice in senior management selection and retention, and influence strategic planning and operational decision making. Examples of the role of PE investors in setting and meeting strategic goals include the following:

- 3i invested in leading Chinese hotpot restaurant chain **Little Sheep** in 2006 when the company had reached an inflection point in its growth. 3i introduced Burger King's former CEO and KFC's master franchisee CEO as non-executive directors to provide advice on Little Sheep's Chinese and international expansion strategy, including the implementation of stricter standards among franchisees and enhanced training and support.
- With the privatization of state-owned Brazilian railroad company **América Latina Logística (ALL)**, Brazilian PE firm GP Investments was faced with rundown infrastructure, a poor safety record, low morale and inefficient operations. GP worked with company management to reduce fuel consumption and operating costs while investing in workforce training and development, including improved health and safety policies. ALL now has the best safety record in Brazil and is rated one of Brazil's top 100 companies to work for.

64% of executives in South Africa, and 96% in India, stated that their companies might not exist or would have grown more slowly absent PE investment.