

## **Private equity executives seek deals**

By Megan Davies And Ola Galal

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Private equity bosses expect the financial crisis to get worse before it gets better, with soaring borrowing costs and stress in their portfolio companies the big concerns.

The credit crisis and turmoil of the past week have been the latest piece of bad news for a private equity sector already hit hard by the year-long shutdown in financing. Many executives say they are finding it tough to get or afford debt for deals, although they remain enthusiastic about the opportunities to invest.

"We haven't been insulated," said Ammar Al-Khudairy, managing director and chief executive officer of private equity firm Amwal AlKhaleej, pointing to the sharp drop in the Saudi stock market. Amwal AlKhaleej has investments in countries including Saudi Arabia, Jordan and Egypt.

"I think the biggest challenge is to come, which is the unraveling of the financial system," Khudairy said at the Super Return private equity conference in Dubai. "We have a complete freeze. Will it get worse before it gets better? I think so."

He said while there was some liquidity left for deals, it was very expensive to get financing.

The mood among conference delegates - 750 to 800 signed up, according to conference officials - was stark. In a poll at the beginning of the conference, 56 percent said the markets had not yet reached a bottom but that it was close.

Asked what private equity returns would be this year, 27 percent said "zero," and another 27 percent said "between 5 percent and 10 percent."

The leveraged buyout model "is not dead, but it's very hard to pull off and we're resorting to more creative means," said Karim El Solh, chief executive officer at Gulf Capital.

Deals struck during the leveraged buyout boom in 2006-7, with high leverage and aggressive valuations, could come back to haunt the buyout firms behind them, said Harvard Business School professor Josh Lerner.

"For many of the groups that were very aggressive in the 2006-7 period, they will have opportunities to repent at leisure for their over-indulgence," he said.

Top of the list of concerns for private equity bosses are keeping their portfolio companies healthy, stopping their investors from panicking, and finding new deal

opportunities amid the liquidity crisis.

Bahrain and London-listed Investcorp's President and Chief Operating Officer Gary Long said the investment firm's portfolio companies were under stress, getting leverage for deals was difficult and investors were nervous.

## GLOBAL SHIFT

The financial crisis, felt first in the United States, could result in wide changes in how capital flows between regions and could shift economic dominance.

"One of the possible outcomes of this is everyone gets impacted but certain geographies will be impacted significantly more," said Andrew Brown, Societe Generale's chief investment officer of private equity in North Africa & Middle East.

"Maybe the United States and Europe may feel this much more dramatically than our investment region," said Brown. "I think the effect of that will be to accelerate the transfer of economic power from the developed world to the emerging markets. And that - when everything settles down - will be seen to be something that may be achieved in the course of a few years (but which) may have taken 10-20 years otherwise."

Lerner said recovery in deals and investment activity would likely come faster in the emerging economies than the West.

Zulfi Hydari, managing director of HBG private equity, said the liquidity crunch would slow investment from Europe and the United States into the Middle East.

"At the same time, the cost of everything has gone down and this makes it a good opportunity to buy into assets in the West," Hydari said. "The question is, can you keep on investing in the Middle East when assets have fallen in the West? I believe there will be no other option but to look outside the region because prices have fallen."

There is hunger for deals closer to home.

Mustafa Abdul-Wadood from Dubai-based private equity firm Abraaj Capital said the company would be interested in investing across all sectors as the Middle East and North Africa offer "competitive advantage".

Ajay Garg, senior investment manager, private equity funds, at Kuwait-based Global Investment House, said falling prices offer a good opportunity to invest.

"Now, a lot of money is coming to the Middle East because of its strong fundamentals ... and investors who are shunning the United States and Europe need to invest somewhere," Garg said.

Speakers expected at the conference in the next two days include titans from the U.S. buyout world - Kohlberg Kravis Roberts & Co's Henry Kravis, Carlyle Group's David Rubenstein and Blackstone Group's Steve Schwarzman.

(Editing by John Wallace)

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