

PE coming out of a state of denial

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I didn't know if any humour existed in the world of private equity (PE). However, last week I had the opportunity to listen to some of the world's top private equity players at the Super Return Middle East conference in Dubai, and was surprised to find that even in these difficult times they appeared a cheerful bunch.

Although many of them were privately sulking about the top dollars that were flushed down the drain at the height of the asset bubble, in general all put on a bold front, saying not everything is grim in the world of multiples merchandising.

A top executive from a leading regional private equity firm sitting at lunch with the press said in fact the regional firms were not impacted much by the global financial turmoil. The food tasted great, but I couldn't quite swallow that statement, as our region too was hit hard by steep value erosion across all asset classes. I gave a very inquisitive look at a familiar face from the industry sitting next to me. He sensed my disbelief, and wrote "DCF" on a paper napkin. I presumed it was one of the many complicated abbreviations that financial whiz-kids use, perhaps "discounted cash flow". Later I asked him the acronym's meaning in private equity parlance. He smiled and said: "Denial of current facts."

The industry has been refusing to see what the rest of us have for the past several months. But many are now shedding inhibitions, and admitting that it will be a while before the sector gets back on its feet. The most candid admission came from David Rubenstein, the co-founder of Carlyle Group. Addressing the conference, he said private equity firms helped inflate the credit bubble by buying companies at high prices, relying on cheap debt. "We contributed to the problem. We tended to invest near the bubble peak at very high multiples."

Private equity firms around the world have been laid low by the recession. Total deals so far this year have amounted to \$58 billion (Dh212.86 billion), less than a third as for the same period in 2008, and a tenth of the figure for 2007. And the industry is struggling in our region too to cope with the reality. Zulfi Hydari of HBG Private Equity from Dubai believes nearly 70 per cent of the 126 players in the region will go out of business, while Gulf Capital's Karim Al Solh says it will be a very challenging year ahead in terms of fund-raising and delivering returns comparable to previous years.

But, overall, optimism is creeping back. Blackstone Group CEO Stephen Schwarzman said in Dubai that the worst of the downturn has passed.

The short history of the industry shows that it has been agile in adapting to changes. After all, didn't they sell a stake in capitalism's most capitalistic institution to communist China, in the form of a 10 per cent stake in Blackstone?

And, interestingly, the industry now believes that the next PE boom will be in China. A recent survey by KPMG shows as many as 33 per cent of private equity players ranked China as the most attractive market.

I am not deliberately looking for black humour, but didn't Lenin say: "The capitalists will sell us the rope we use to hang them with."