

# EMERGING MARKETS PRIVATE EQUITY

A quarterly newsletter of the Emerging Markets Private Equity Association

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## WELCOME TO EMERGING MARKETS PRIVATE EQUITY

Where are the exits? This question is on the top of every LP's mind when discussing emerging markets private equity. The good news is that emerging markets funds are beginning to deliver. The boom in exits in Asia, combined with strong exit performance in Africa, Eastern Europe and Latin America, is enhancing the credibility of the emerging markets private equity asset class. This third edition of *Emerging Markets Private Equity* introduces a new feature that will track exits achieved by emerging market funds (see page 5). You will also find in this edition a lead article on exit data and trends in key markets. One of the main drivers of improved exit performance has been the stricter adherence to corporate governance, which is also a key theme for this issue. Our geographical feature this quarter covers South Africa's private equity market. This edition also brings the release of important data on increased funds raised year-to-date in 2005 for emerging markets private equity funds.

In addition to these features, this issue provides you with a new regular update on member news and provides information on the **upcoming joint EMPEA / Private Equity International Forum in London on December 13 & 14, 2005**. This will be EMPEA's inaugural European event and is a key element of our strategy to make sure that EMPEA brings together the critically important stakeholders that are interested in emerging markets. We hope you enjoy this edition of the newsletter and, as always, we welcome your comments.

-- Roger Leeds, Chairman, EMPEA

## EXITS: \$12BN RETURNED TO EMERGING MARKETS PE INVESTORS ALREADY IN 2005

2005 is shaping up to be another exceptionally strong year for exits from private equity funds in emerging markets, particularly in Asia. An estimated \$12-13bn has been returned to investors to date in 2005 from funds investing in Asia, Latin America, Central and Eastern Europe, the Middle East and Africa. The divestment total is roughly 1.5 times the capital raised for the asset class in 2004.

The vast majority of these exits have been in Asia, where the 2005 data points to an even stronger performance than the record setting levels of 2004. *The Asia Private Equity Review* reports an extraordinary performance in terms of net realized capital for the first half of 2005 (\$9.7 bn); realized IRRs (mean of 54%); and breadth of exit activity across countries and investment categories. *APER* Editor-in-Chief Kathleen Ng calls the track record "an indication that Asian private equity has come of age."

Although there is less activity and less comprehensive data in other regions, healthy exit flows are also taking place in other emerging markets. 2005 has seen several substantial exits from Russia, the largest ever private equity sale in Africa, and a small but significant stream of IPOs on key stock markets such as Warsaw and Sao Paulo. An overview of exit activity across the regions is outlined on page 5.

*continued on page 4*

## Exits: \$12bn Returned to Investors, *continued from page 1*

In part, the strong exit track record reflects the broader context of an active and more globalized IPO market, as new issuance returned to levels not seen since 2000. IPOs of companies from emerging markets raised \$34bn in 2004, 28% of the global total for the year.<sup>1</sup> This increasingly global IPO market is supported by increasing depth in the major developing country stock markets, where average trading volumes have doubled over the past five years.<sup>2</sup>

Within this overall trend, venture and buy-out backed IPOs have been particularly prominent in Hong Kong, India, Taiwan, and via NASDAQ, where several of the best performing stocks have been venture-backed Chinese companies, such as Baidu and Shanda Interactive Entertainment. Outside of Asia, the Warsaw Stock Exchange and Brazil's Novo Mercado have emerged as increasingly viable exit avenues for private equity.

Private equity investors in emerging markets are quick to point out, however, that the vast majority of exits are by private sale, not IPOs, and in this arena many see improvements in both the market and the approach of managers.

"Two things are happening," says Tom Barry, President and CEO of Zephyr Management, LP (which invests in Africa and other emerging markets). "First, globalization is continuing, and, as a result, more and more companies want to buy businesses in emerging markets. Second, fund managers have gotten smart about critical mass, by investing in companies that are large enough to attract foreign buyers and/or by taking large enough stakes to control exits."

Robert Manz, Partner and member of the Board of Enterprise Investors, which manages funds in Poland and Central Eastern

Europe, and Chair of EVCA's Central and Eastern Europe Taskforce, says that options for exit are increasing, which in turn is leading to shorter holding periods and higher valuations.

"We've seen a significant increase since the accession [of Central and Eastern European states to the EU] in the pace of exits and the interest among buyers," he says. A key factor, according to Manz, is that domestic corporations and larger private equity houses are now active buyers of private equity holdings in the region, alongside foreign corporations. "When we started there were only two exit options, foreign trade sale and the occasional IPO. Now there are five: foreign trade sale, domestic trade sale, IPO, secondary sale [to private equity funds or financial buyers], and management buybacks." Manz notes that this broadening market activity is helping to push multiples in Central and Eastern European toward Western European levels.

Jonathon Bond, Managing Partner of Actis (which invests private equity funds in Asia and Africa), agrees that exit options are increasing, saying that "both multinationals and local companies in Asia have been very active on the acquisition trail." Bond also notes that hedge funds have an increased interest in buying private equity holdings, particularly in India.

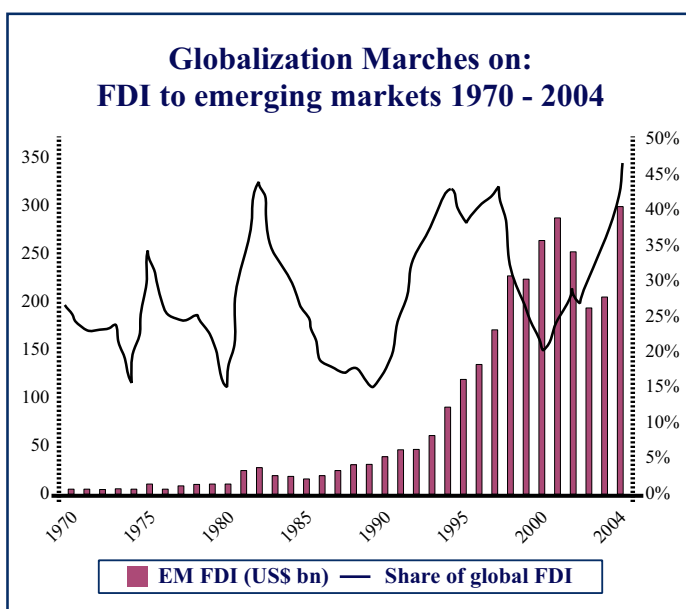
Bond sees a "virtuous circle" developing in the intermediary role that private equity investors play between emerging markets companies and strategic buyers. "These strategic buyers find it reassuring to buy from a private equity seller," he says, "because they know the governance and the accounting will be up to standards. We're certainly seeing evidence of a premium being paid because of that reassurance."

The increase in exit options is showing up in decreased average holding times for portfolio companies. Kathleen Ng of *Asia Private Equity Review* says average holding times for Asian portfolio companies have decreased from 4-5 years to 3-4 years, or fewer. According to Robert Conn, Managing Partner of Innova Capital (a manager of Central European funds), holding periods for Innova have dropped from more than five years for their 1998 fund to fewer than three years.<sup>3</sup>

How sustainable is the current level of exit activity in emerging markets? Most managers agree that market shocks, which in the past have closed down the global investment and IPO windows on which exits depend, still pose a threat. "These markets are not immune from external shocks, but there are some fundamental reasons why they should continue to grow," says Robert Manz

Manz notes by way of example that the younger demographics of Poland will cause Polish pensions to keep growing in assets even as they are increasing their equity allocation, and this

*continued on page 8*



Source: UNCTAD

## Emerging Markets Private Equity Exits To Date in 2005

EMPEA will regularly publish a list of exits in the newsletter. This table below represents a sample of initial exits completed this year. This list is not meant to be exhaustive, but rather indicative of trends in emerging markets private equity. Information is compiled from submissions and publicly available news sources. We encourage all fund managers to submit information on exits to EMPEA for possible inclusion in the newsletter. Please send information to [empea@empea.net](mailto:empea@empea.net)

Country	Portfolio Company Name	Private Equity Firms	Date of Investment	Capital Invested	Date of Exit	Type of Exit	IRR +/-or Cash Multiple
Africa	Celstel International B.V.	Data for: Actis, EMP Africa, Zephyr Management, LP. Other investors: Capital International, Bessemer Venture Partners, Citigroup, DEG, FMO, IFC	1999 - 2004	\$US150.2 mm Total for all 3	Partial Exit, May 2005	Trade sale to Mobile Telecommunications Company (MTC) of KuwaitPE Investors took only a partial exit.	36-56% \$US; 4.3-5.9x
Argentina	Universal Assistance, S.A.	Advent International			Jan-05	Trade sale to Argentina's Global Medicine Assistance LLC	
Brazil	Akwan Information Technologies	Fir Capital			Jul-05	Trade sale to Google	
Brazil	Atrium Telecomunicacoes S.A.	Advent International			Dec-04	Trade sale to subsidiary of Spain's Telefonica S.A.	
Brazil	Autotrac SA	Data for BPE Investimentos. Other investors: Qualcomm & Bradesco	Q4 1997	\$US 2.5 mm	Q1 2005	Trade sale to Monte Cristalina SA.	34%; Sale price was 6.6x the original investment.
Brazil	Localiza	Donaldson, Luftkin & Jerette Merchant Banking (DLJ)	1997	\$US 50 mm	May-05	IPO on Bovespa	
Brazil	Microsiga	Advent International	Apr-99		Mar-05	Recapitalization that enabled Microsiga to acquire Logocenter S.A.	2x
Brazil	Submarino	Data for GP Investimentos. Other investors: Warburg Dillion, T.H. Lee Putnam, Banco Santander, JP Morgan Partners, Flatiron	Jun-99	\$US 8.7 mm	Mar-05	IPO on Bovespa	35.7% gross \$US; 3.9x
China	Amperex	H&Q Asia Pacific			May-05	Trade sale	Positive return to fund
China	Baidu	DFJ (28% pre-IPO stake) Integrity Partners (11%), Peninsula Capital (10.1%), IDG Technology Ventures (4.9%) and Google Inc. (2.6 %).		\$US 21.09 mm	Aug-05	IPO on NASDAQ	
China	China TechFaith	Intel Capital			2005	IPO on NASDAQ	
China	Focus Media Holdings (FMCN)	DFJ, Goldman Sachs, 3i, Capital International CDH Investments & WI Harper	April 03, April 04, Nov 04	\$US 45.85 mm total (\$US 8 mm for 2 divesting)	Jul-05	IPO on NASDAQ. CDH and WI Harper divested 20.22% of holding, while the other PE investors chose not to divest.	Partial exit: 6.6x
China	Hurray! Holding Co., Ltd	Fidelity Greater China Ventures Fund, Granite Global Ventures			2005	IPO on NASDAQ	
China	Ping An Insurance	Goldman Saches (5.47%) and Morgan Stanley (4.67%)	1994	\$US 35 mm each	2005	Trade sale to HSBC.	Estimated 20x or more
China	Tao Bao (Subsidiary of Alibaba.com)	Softbank Corp.		\$US 20 mm		Trade sale to Yahoo	
China	Xinyi Glass Holdings Ltd	Kingsway SBF Investment			2005	IPO on HKSE	
Egypt	SEDPIC	EFG-Hermes Private Equity	1997	\$US 11.7 mm	2005	IPO on Cairo Stock Exchange	40% EGP; 8x
India	Apollo Hospitals	Symphony Capital Partners (13.2%) formerly Schroder Capital Asia	Dec-95	\$US 6.8 mm	Aug-05	Trade sale to Gov't of Malaysia for US \$ 44.2 million.	
India	HT Media	Data for Henderson. Other investor: Citigroup India	Mar-04	\$US 26.8 mm	Aug-05	IPO on the Mumbai Stock Exchange (BSE)	123%; 3.1x
India	I-Flex	CVC International		\$US 23.7 mm	Aug-05	Trade sale to Oracle	
India	IDFC	Actis	Mar-98	\$US 15.2 mm	Jul-05	IPO on BSE	3x
India	Suzlon	Data for: ChrysCapital Other investor: Citi Ventures	Aug-04	\$US 21.6 mm	Jul-05	Trade sale to GIC.	14x
India	Yes Bank	AIF Capital, ChrysCapital, CVC International	Early 2004	\$US 15.8 mm	12-Jul-05	IPO on BSE. Private equity investors chose not to dispose shares in IPO.	
Mexico	Betterware	Actis	Oct-02	\$US 5.8 mm	Apr-05	Trade sale.	\$US 100%; 3x
Middle East	Aramex International	Abraaj Capital	Feb-02	\$US 15 mm	28-Jun-05	IPO on Dubai Stock Exchange	66.4%; 5.6x
Poland	LLP	Enterprise Investors	2003	\$US 13.1 mm	Sep-05	IPO on the Warsaw Stock Exchange	90%; 4.5x
Russia	DeltaCredit Bank	Data for Delta Private Equity Partners. Other investors: The US Russia Invst Fund, GE Pension Trust	2004	\$US 20.5 mm	2005	Trade sale to Societe Generale of France. Subject to regulatory approvals.	143%; 2.65x
Russia	Ivan Taranov Breweries (ITB)	Texas Pacific Group (38%)			Aug-05	Trade Sale to Heineken	
Russia	National Cable Network (NCN)	Data for Delta Private Equity Partners Other investors: Basic Element, Mint Capital, The US Russia Invst Fund	2004	\$US 4.0 mm	2005	Trade sale to Basic Element.	211%; 2.5x
Russia	ZAO Hotel Corp (Nevsky 49)	Delta Private Equity Partners	1999, 2000, 2004, 2005	\$US 10.1 mm	2005	Trade sale	13%
South Africa	Protea Hospitality Corporation	Actis	1999	\$US 8 mm	Jul-05	Trade sale to BEE consortium.	\$US 21.5%; 2.6x
South Africa	Net1 U.E.P.S. Technologies, Inc	Brait, Southern Cone, FFP Asset Management	2004	\$US 150 mm	Aug-05	IPO on NASDAQ.	
Taiwan	Taiwan Chi Cheng Enterprise Co., Ltd.	Walden International (15.43%)	1998		May-05	IPO on TAISDAQ	