

# Private Equity

## “more than just money”

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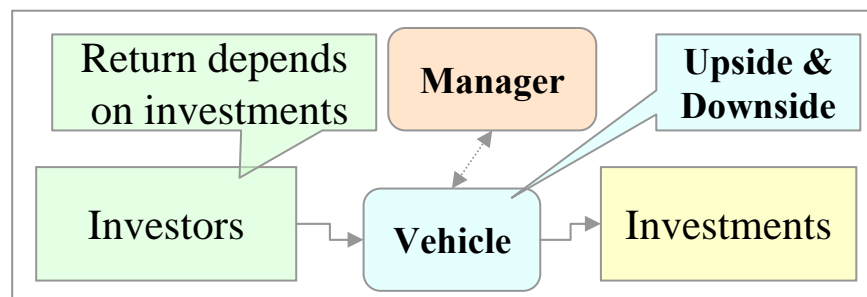
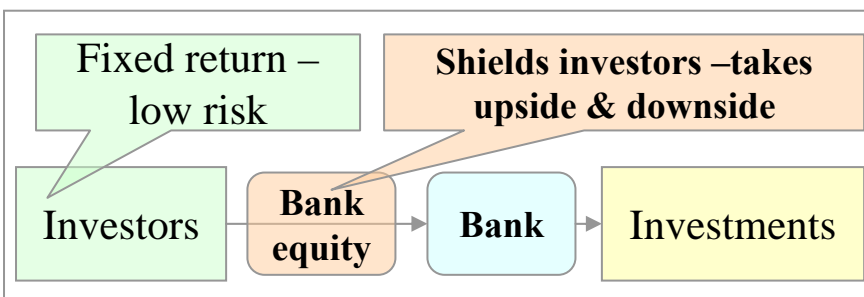
# Investment vehicles generally pool the capital of several investors that may be institutional, in order to enable them to invest in certain opportunities

## Banks

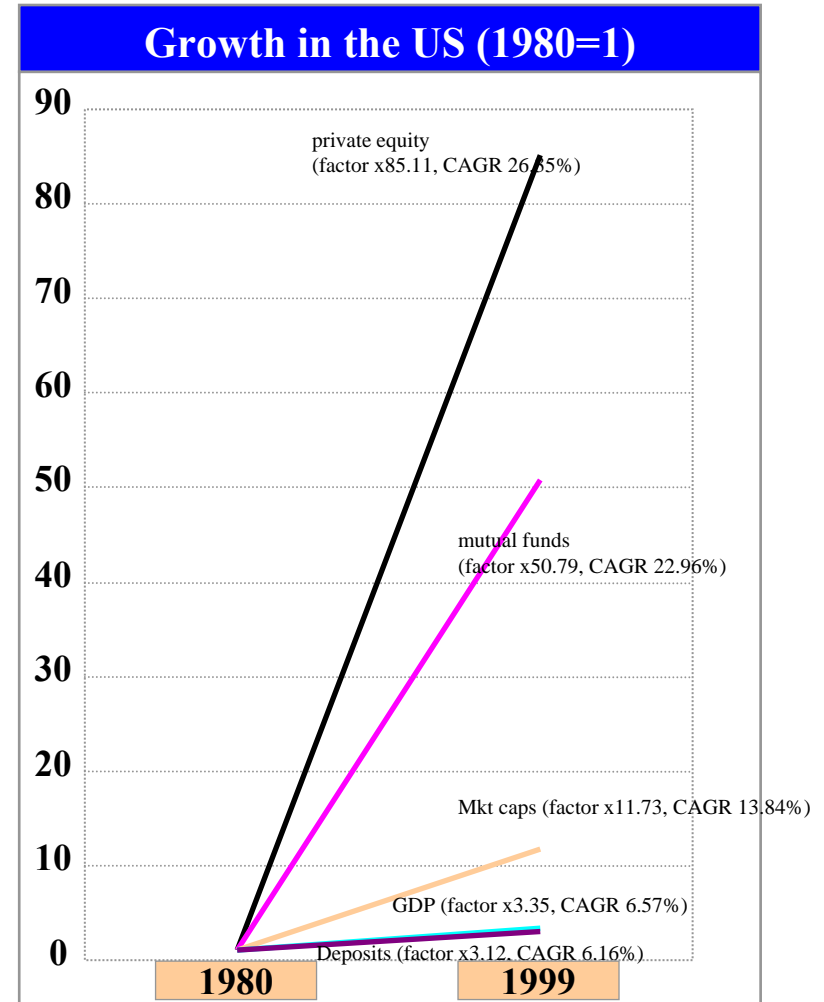
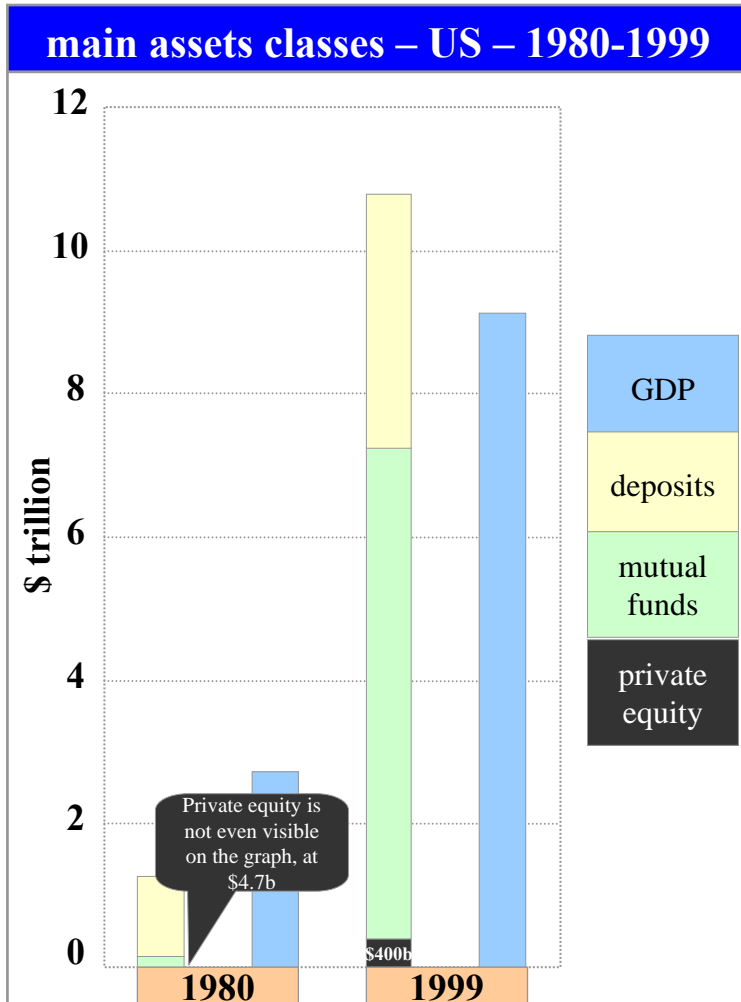
- Investors depositing their money in a bank usually receive a set interest rate
- In essence, they choose to forgo any upside in the bank's investments, but on the other hand, they are shielded from any downside as well
- The equity of the bank owners serves as a cushion against any downside, while being entitled to the upside

## Investment Vehicles

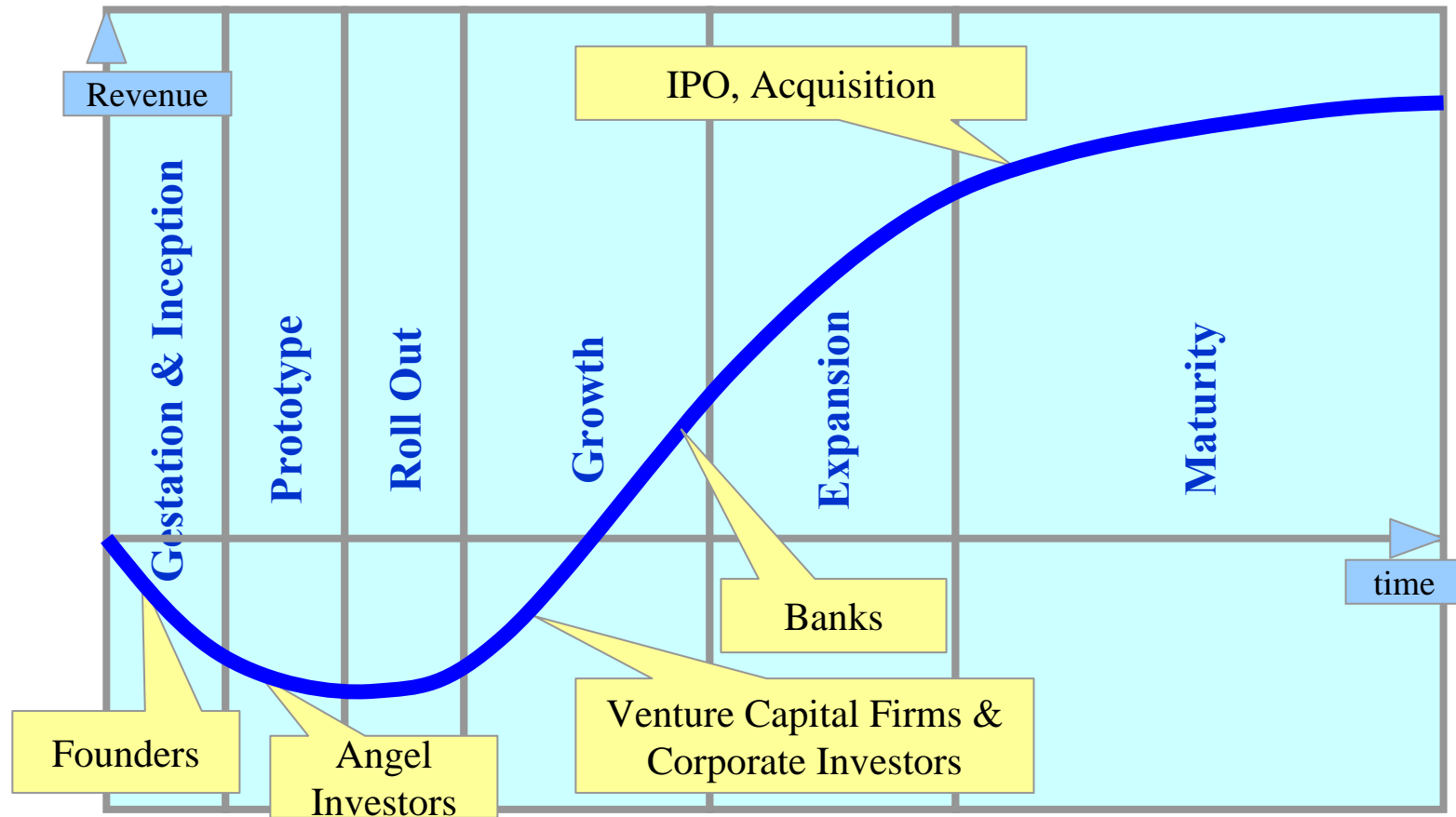
- Investors in investment vehicles take a direct risk in the ultimate investments made, and as such they usually have no guarantee of performance
- A specialised manager will invest the amounts raised in the vehicles. Manager remuneration will be based on fees, with some success component



**In the US, there has been a global shift from deposits to equity over the last 2 decades. Private equity, while still relatively small, has grown explosively**



# A new venture's path from inception to maturity goes in stages, all fraught with multiple risks



Source: 1000ventures.com

## Equity oriented investment vehicles cover the range of growth phases and can be further specialised along a number of other dimensions

STAGE	TYPICAL INVESTOR IDENTITY	DRIVING FACTORS
Gestation & Inception	Entrepreneur and his FFF (Fools, Friends & Family)	Make it work - Believe
Prototype	FFF – Angels - very early stage	Believe
Roll Out	Venture capital	Management structure – HR – institutionalisation
Growth	Corporate – Venture Capital	Ramping up volumes – dealing with institutions – Professional Management
Expansion	Banks – Accelerator funds	
Maturity	Capital markets – mutual funds	Deal making - exits

# The non-financial contribution of investors starts as soon as investee companies starts asking for institutional help

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**Investors start contributing immediately all non-financial items, both for “soft” issues and “hard” issues**

**Management structure – HR – institutionalisation**

**Ramping up volumes – dealing with institutions – Professional Management**

## **In addition to the life cycle dimension, other differentiators exist for equity investment vehicles, including but not limited to, sector and geography**

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- Equity funds may be focused on sectors such as “biotech”, “car parts”, “industrial”
- Equity funds may also be focused on a geography such as “restructuring in the Levant”, “Income producing real estate in Western Europe”, “Infrastructure in Africa”
- Equity funds may also focus more particularly on certain situations or phases, such as turnarounds, restructurings, privatisations, management buy-outs & buy-ins, and financing acquisitions
- In addition, combinations are sometimes possible (“Biotech in South-East Asia”)

# Numerous forms of investment vehicles exist; we list a few here, for illustration purposes

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- **Mutual Funds:** invest in public companies
  - Can be managed or index tracking
  - In the US and the UK (where they are called “unit trusts”), they are highly regulated, as they are often used by the pension funds of workers as investment vehicles
- **Securitisation Funds**
- **Freddie Mac and Fannie Mae:** two giant government sponsored wholesale traders of mortgages in the US
- **Various Securities and Commodities Funds**
  - mid-cap funds, small-cap funds
  - commodities funds (often invest in futures and derivatives)
- **Hedge Funds**
  - Long-short on equities
  - May arbitrage price inconsistencies across various types of securities issued by the same company (bonds, convertible bonds, warrants, common stock)
- **Debt Funds** (with or without further structuring)
  - Syndication fund
  - Fixed Income (corporate or sovereign)
- **PIPE (Private Investment in Public Equity):** they take part in reserved capital increases in public companies
- **REITs (Real Estate Investment Trusts):** invest in properties, regulated to be tax neutral, in general



# Private Equity investments are a form of corporate financing, that can be compared to many others, including bank debts

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## Equity

- Longer term
- Unsecured
- More flexible and willing to take more chances
- Risk not mitigated
- Unlimited returns
- Contributes advice
- Closer involvement in company development

## Debt

- Short to medium term
- Secured
- Relatively conservative and more mature balance sheets
- Requires regular interest and principal payments
- Risk mitigated by company assets
- Capped returns (interest rates)
- Advice not necessarily implicit

# **Byblos Ventures is a private equity company being set up to serve Lebanese & regional SMEs in need of equity capital to grow**

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- The purpose of the project is to raise \$20m, potentially increasable to up to \$50m, with a realistic target of \$30m, in order to set up a private equity company, incorporated as a Lebanese holding
- Byblos Ventures will be active in Lebanon and the region (Syria, Jordan & Egypt), although most of its exposure is expected to remain Lebanese. Its strategy is to take strong minority stakes (preferably in the 34% to 49% range) in carefully selected Lebanese companies, for transaction sizes varying between \$500k and \$3m

# Operational Standards

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- **EVCA reporting** to shareholders will be adopted
- Valuations will be carried out in accordance with **EVCA guidelines**
- Byblos Ventures and Byblos Management will adopt **IAS accounting** standards
- **Close monitoring of portfolio companies** will be undertaken by dedicated investment officers of the manager; representation on boards of portfolio companies will be sought
- Portfolio companies will be required to submit **monthly management accounts**, comprehensive semi-annual accounts and audited annual accounts
- **Comprehensive business plans** and cash flow projections will be a key responsibility of the Manager
- **Exit strategies** will be determined at the time investments are made with ongoing monitoring for the development of exit alternatives

# The venture is sponsored by Byblos Bank and has been supported by the EIB through a technical assistance programme

## Byblos Bank

- Byblos Bank has a long and fruitful history of supporting Lebanese corporations and family businesses
- In the initial phase, Byblos Ventures will focus on companies:
  - whose people, processes and financials are well known
  - which already have projects of expansion, and a strong history of growth
  - willing to open the family business to external investors
  - that have owners and managers with a proved track record in terms of ethics and competency

## European Investment Bank (EIB)

- The European Investment Bank (EIB) chose to undertake this project with Byblos Bank following the previous development of a close relationship through funding programmes such as Facility for Euro-Mediterranean Investment and Partnership (FEMIP)
- EIB will contribute its expertise and experience in structuring, establishing and managing such vehicles
- EIB will also have a contribution on the structuring of the administrative side

# Target companies will need to be in the right sector, have specific internal, external and financial strengths, and fit the criteria

SECTORS	CRITERIA ADEQUACY	
<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Food and beverage related industries</li> <li>• Electronic equipment</li> <li>• Pharmaceuticals, chemicals and related industries including healthcare</li> <li>• Leisure &amp; service industries</li> <li>• Franchising and retail</li> <li>• Private educational establishments</li> <li>• Technology &amp; software</li> </ul>	<ul style="list-style-type: none"> <li>• An investment of \$500k - \$3m will make a difference by unlocking significant value, by (e.g.) increasing capacity, upgrading technology, or otherwise positively impacting the company's performance</li> <li>• Investment will have a minimal base case IRR</li> <li>• The valuation of the company is such that the investment will lead to a strong minority stake (preferably in the 34-49% range)</li> <li>• Board membership, shareholder agreement, proactive but not (in principle) operational control</li> <li>• Identifiable exit strategy</li> </ul>	
INTERNAL STRENGTHS	MARKET STRENGTHS	FINANCIAL STRENGTHS
<ul style="list-style-type: none"> <li>• Competent management</li> <li>• Impeccable reputation of owners and management</li> <li>• Motivated workforce</li> <li>• Transparent numbers</li> <li>• Willing to accept external parties as investors and board members</li> <li>• Using appropriate technology</li> <li>• Modern plant and equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Preferably dominant / quality brand names</li> <li>• Strong growth potential</li> <li>• Resilience to downturns in the economy</li> <li>• Preferably export oriented</li> <li>• Interest in regional and international expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable above average profit margins</li> <li>• Solid cash flows</li> <li>• Strong debt service</li> <li>• Timely and transparent disclosure</li> </ul>

# Conclusions

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- When raising money from international investors for a private equity project, transparency, ethics and other requirements are imposed. They are reflected in the behaviour of the investment project vis-à-vis its investee companies. This is the first rather passive form of equity being more than just money
- The private equity investment will generally sit on the board of investee companies. The deliberative nature of this body will make important issues emerge and be discussed, solutions sought to problems and the like. Formally and informally, the private equity investor will contribute its knowledge, time, know-how, and network
- In economies dominated by family firms, the mere presence of an institutional investor will lead founding families to modify their behaviour and to put systems in place, thereby reducing the share of intuition and hunches and increasing the share of rigorous analysis
- Private equity investors traditionally often play a role in recruitment (including managerial layers), reporting, budgeting and other fields. They can also help in finding suppliers, clients, suitors and partners

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*Thank You for Your Time*

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