



Private Equity in Emerging Markets

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Agenda



Snapshot DEG

Financing options of DEG

PE in emerging markets – overview

What is driving PE in emerging markets?

PE Fund Performance

Outlook

Snapshot DEG



Private sector promotion in emerging markets (EM)

- **Long-term investment capital (debt/equity/mezzanine) for private enterprises on commercial terms**
- **Contribution to sustainable economic growth and poverty reduction**
- **Founded 1962, member of KfW Bankengruppe (AAA)**
- **Investments in 500 companies, 80 countries**
- **Total assets: EUR2.8bn (36% in risk capital; 7% in pe funds)**
- **New business 2006: EUR930m**

Financial instruments



Long-term loans

Currency:	EUR, USD, JPY or HKD
Amount:	between 5 million euros to 30 million euros
Term:	usually between four and ten years
Period of grace:	depending on cash flow
Interest rate:	fixed or variable, market-oriented according to project and country risks
Collateral security:	usually security as fixed assets in the country of investment, project-specific arrangements

Financial instruments



Mezzanine finance

Financing combining elements of equity and debt:

- Project-specific arrangement
- Subordination
- Conversions options
- Risk-oriented yield

Financial instruments



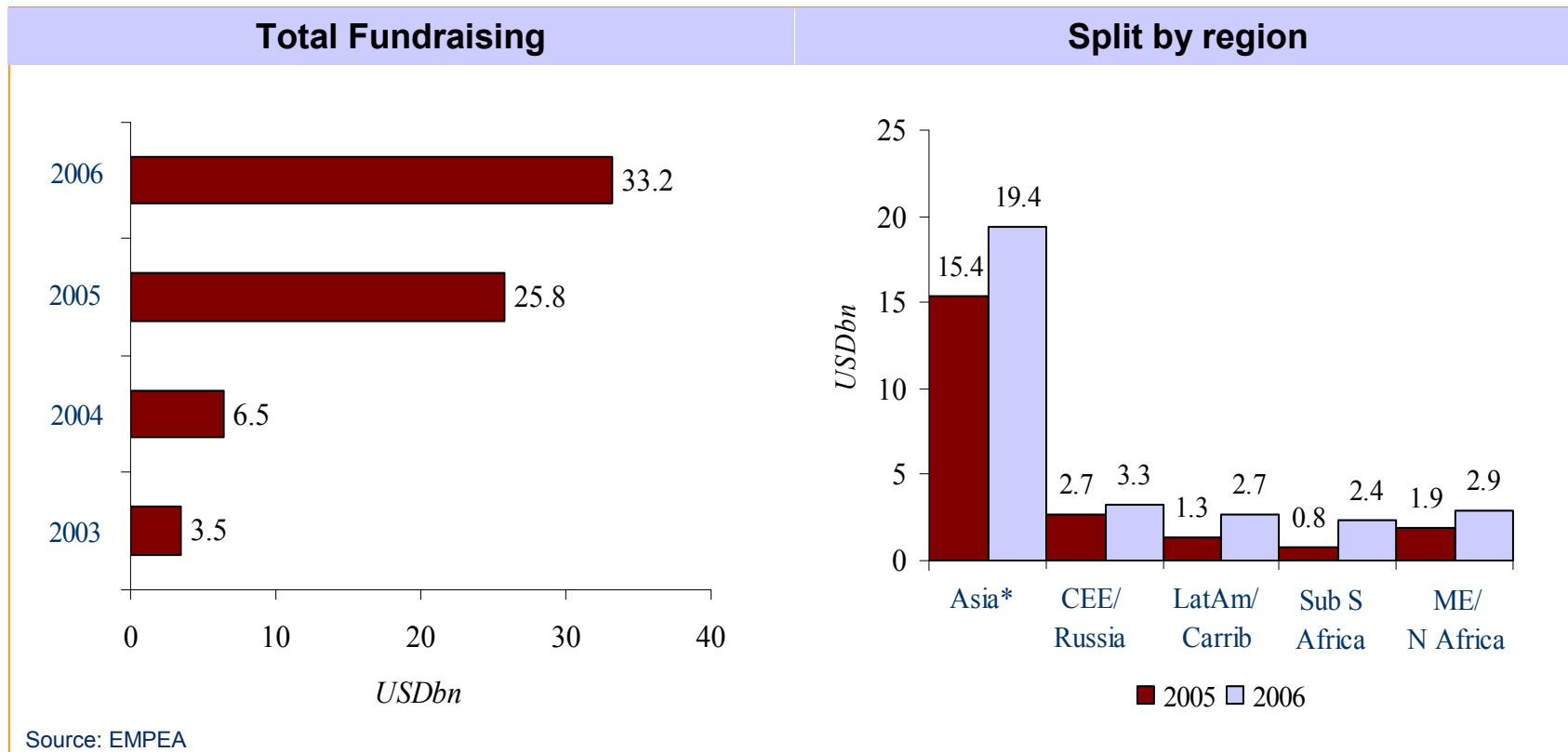
Equity capital

- Equity participation in the project company usually 5 - 25%; amounts between 5 million euros to 30 million euros
- Variable arrangement of the risk components (from full risk participation to fully covered participation)
- In certain cases, voting rights and seat on the Board of Directors of the company
- Clearly defined exit strategies

PE in emerging markets



2006 Fundraising at record levels,....but coming from a low base!



*: Excl. Japan, AUS, NZ. Note: USD2.5bn not defined

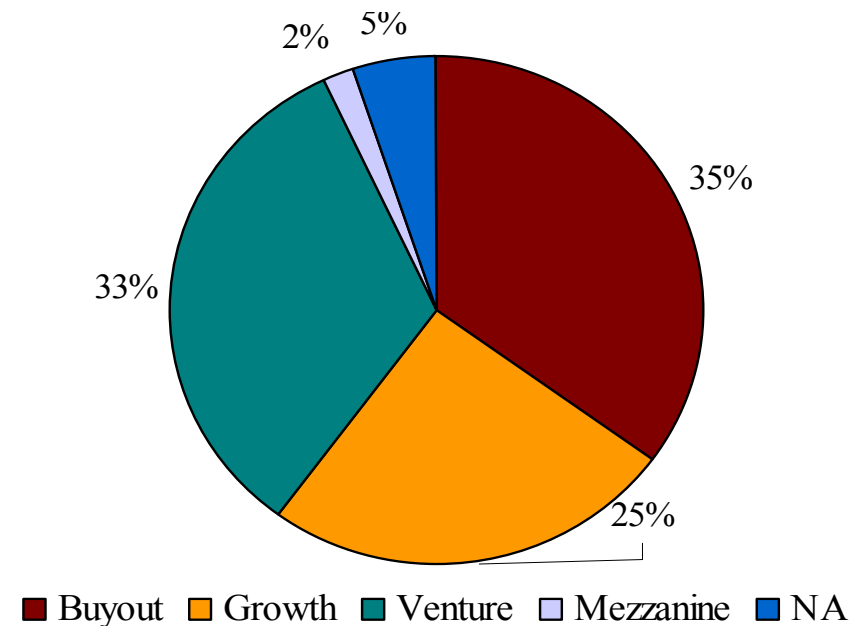
PE in emerging markets (cont.)



Main Focus on Venture and Growth Capital

Stage of Funds (No. of Funds Closed in 2006 162)

- **By number: VC, Growth and Buyout Funds are main fund types in EM**
- **By volume: growth capital dominates Asian markets and buy outs mainly in CEE and LatAm**
- **Only 4 Funds were bigger than US\$1bn**
- **Vast majority of funds are generalist-type**



Source: EMPEA 2006 fundraising review

What is driving PE activity in Emerging Markets?

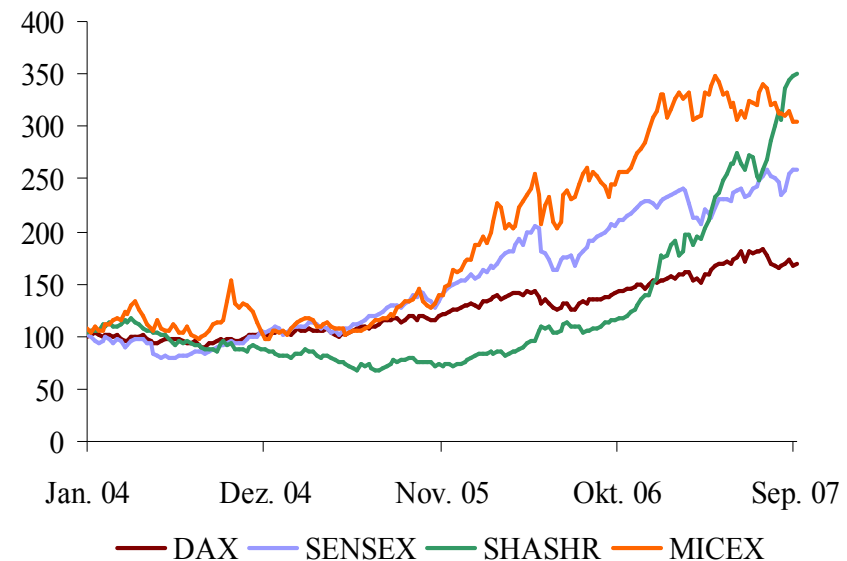


A beginn environment and the bull market beauty...

- Strong EM macroeconomic fundamentals: „BRIC“
- Political stabilisation
- Globalisation and Trade
- Growing domestic market
- Capital market development

➔ EM has outperformed developed markets over past 5 years, though sharply increased volatility of late

Share price development



Note: Re-based to 100

Source: Bloomberg

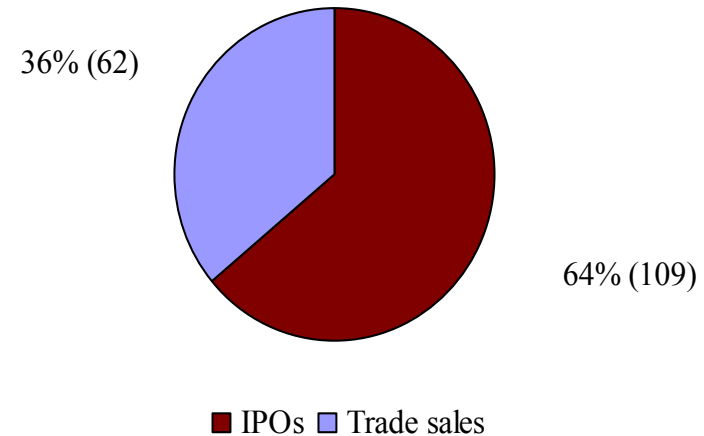
What is driving PE activity?



Exit routes and attractive returns: Regional feature Asia

2006 divestment profile Asia (ex. Japan)

- **Booming capital markets offer attractive exit route**
- **With IPO as favoured exit route, trade sales returning similar capital levels to investors**
- **Highly attractive top quartile returns in 2006 (IRR: 128-980%)***
- **Will the party last?**



(109) = Number of exits

2006 capital returned to investors (USDm)

IPOs	3,770
Trade sales	3,450

*: Asia ex Japan

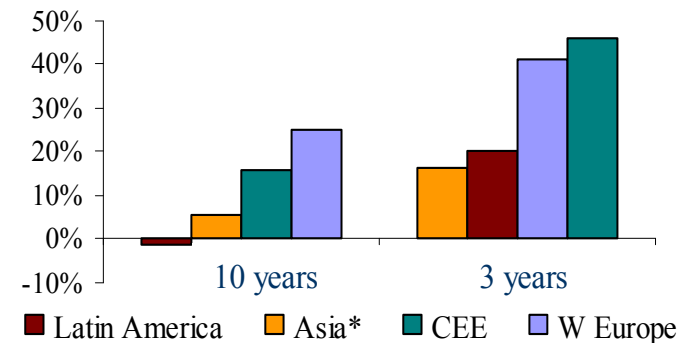
Source: Asia Private Equity Review

PE fund performance

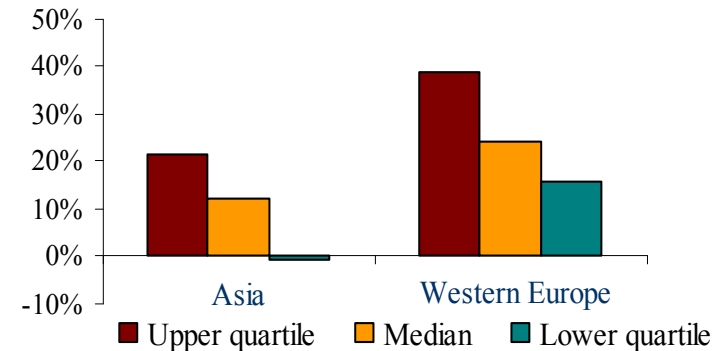


- **Strongly increased EM PE Fund performance over the past years:**
 - **10 year net returns unattractive as compared to developed market peers**
 - **3 year net returns increased strongly, partly surpassing developed market returns**
- **Importance to choose top Fund performer significantly higher than in developed markets**

Net returns by region



Distribution of net returns (2000 vintage year)



Source: Cambridge Associates

Outlook



The road ahead

- **Positive outlook on overall investment conditions - strong regional differences**
 - **More LBO activity**
 - **Increased valuation levels will put pressure on returns**
- ⇒ **Overall, level of PE activity expected to grow significantly in the coming years, though volatility levels to increase**

Advantages of a cooperation with DEG



DEG

- has over 45 years of experience in developing countries
- is a reliable and long-term partner
- offers the co-financed companies a political umbrella function
- is in some countries exempted from withholding tax
- has offices in its major partner countries thus providing comprehensive country know-how
- offers a product range from long-term loans to risk participations
- accepts, as a rule, the full project and country risk, i.e. no burden on the balance sheet of the parent company
- is able to mobilise additional funds through financings together with KfW or other European development finance institutions

Get in touch



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