CRESCENT ENTERPRISES

Bi-Monthly News

Issue 14: June 2016

Operating across multiple core sectors of the global economy

OPERATIONAL NEWS - PRIVATE EQUITY - CORPORATE CITIZENSHIP - INDUSTRY EVENTS - CORPORATE INSIGHT

OPERATIONAL NEWS

GULFTAINER - GAMA AVIATION PLC - CE-VENTURES

UASC'S 15,000 TEU SHIP A NOTEWORTHY GUEST FOR GULFTAINER

"Largest Eco-friendly Vessel Call at Khorfakkan Container Terminal"

Although Gulftainer is no stranger to welcoming the largest ships to its ports throughout the region, a recent visit by UASC's Linah to the Khorfakkan Container Terminal (KCT) was one of significance for the company, coming in at 15,000 Twenty Foot Equivalent Unit's (TEUs), the largest vessel at the port to date. Linah, is part of UASC's latest US$2.3 bn new building programme consisting of 17 ships, which are considered the world's most eco-friendly due to their environmental credentials, first-class technology and low carbon dioxide emissions.

Gulftainer welcomed Linah, UASC's 15,000 TEU capacity containership to its Khorfakkan Container Terminal, a landmark event highlighting the largest and eco-friendly vessel call to date.

KCT Quick Facts:

- **Berths - 6**
- **Draft (m) - 16.5**
- **Area (ha) - 70**
- **Quay Length (m) - 2,000**
- **Quay Cranes - 20**

Gulftainer has welcomed several similarly large vessels to KCT earlier this year, including 'CMA CGM Jules Verne', for which it recorded the highest number of moves per vessel in its history with a total of 11,756 moves. The ports and logistics firm also had a visit from one of the biggest vessels at its port for a maiden call with 'CMA CGM Kerguelen', in addition to Cunard's flagship passenger liner 'Queen Mary 2'.

Complementing KCT's strategic location outside of the Strait of Hormuz as a transshipment hub which caters to the Persian Gulf, Indian Subcontinent, Gulf of Oman and East African market, has been Gulftainer's high productivity levels as well as the company's ability to handle mega-vessels with ease. Ongoing operational updates to the terminal such as the introduction of new cranes, state-of-the-art technology systems and tractor units have also enabled the effective and efficient movement of cargo, ultimately resulting in several new contracts which it added to an already robust long-term client base.

"Getting to Know the Man in Charge of Taking Gulftainer to the Next Level"

In a recent interview by Container Management we learn about,Flemming Dalgaard's career successes and the less formal side of the man now in charge of taking Sharjah's leading ports and logistics company to the next level, as CEO of Gulftainer.

Flemming Dalgaard, CEO of Gulftainer.

Where are you from?

I grew up in Odense, the third largest city in Denmark, the home of the writer Hans Christian Andersen and the ruler of Denmark, Norway and England, King Canute. It is a very nice place to grow up and is located alongside a river, where I used to go fishing when I was a child.

How did you get involved in the maritime industry?

My brother-in-law was a shipping broker and I thought that sounded really interesting. Later, during my late teenage years I learned that my friend had joined a shipping company and I thought it was a great opportunity, so I followed suit by joining Maersk's graduate trainee scheme in 1986.

Since that time you've worked all over the world. How do different cites compare?

All of my experiences in different parts of the world have been fantastic, each is unique in its own way and I have fond memories of all of them. One location stands out and that is the UAE, where I was sent for my first overseas posting back in 1988. I have been coming back to the Emirates ever since and it has been very interesting and a privilege, to follow the development of this region from a business as well as a personal point of view. In terms of natural beauty and unique experiences, there is nothing to compare to South Africa, where the grand canvas and mountains, lakes and the coastline is breathtaking. The other locations were equally memorable, including Budapest, where I proposed and married my wife and where we also had our first child; Hamburg, which is a former Danish territory and where my second child was born; Beijing, where the culture was just fantastic; and Kenya, where I secured my first management-level assignment.

As well as working, you have continued to study throughout your life. Do you think that more people should alternate between the two?

I think it's important for all of us to continuously improve our knowledge and learn new things, as well as plug holes in our education, which arise over time as one progresses in a company. The opportunity to study abroad in different locations adds to this journey of enrichment, as this gives you a broader cultural understanding and a strong global network. New York and London, where I've studied, are amazing cities in this respect. I also enjoyed living and studying in Philadelphia, where there is a lot of focus on education and art.

How about your personal life?

I'm married to Joanne, who is from England. We were introduced through her brother, who is a close friend of mine, and married in 1996. We have town sons, the oldest who is at university studying business management and would like to work in the logistics industry later in life. My younger son still has two years before he has to make up his mind about what he wants to study.

What do you do in your spare time?

I'm a keen golfer and also play squash a few times a week. When I was at college, I played a lot of volleyball and the team I played on won the national championship for schools. I like to watch football quite a lot, but sadly, I cannot claim any mentionable skills for it. Besides my interest in sport, I like to cook, especially Italian and Thai food, though I also enjoy barbecuing a perfect steak. In the years I lived in Africa, I enjoyed going on safaris and exploring new and remote areas, and have also climbed summits like Mount Kenya and Kilimanjaro, the highest mountains in Africa.

What do you hope your legacy will be at the end of your career?

There are many things I would like to have been a part of, including finding talent and promoting young people to the next level in the industry. However, if I could only choose one, it would be to have helped the industry to improve safety standards. We owe it to our employees that they are able to come to work knowing that it is a safe place and that they will be able to return home safely to their families every day.

Gulftainer is a subsidiary of Crescent Enterprises.

GAMA AVIATION'S ASIA PACIFIC STRATEGY TAKES SHAPE

"Gama Hutchison Reveals FBO Intentions"

Following the commencement of Gama Hutchison operations in 2015, the joint venture has diligently taken steps to developing a strategy for the region that will enable the greatest return for the company. Gama Hutchison is one among a group of 45 operating within the business aviation services market in Greater China, expected to rank as the third largest business jet market by 2022.

Gama Aviation and Hutchison Whampoa's joint venture, Gama Hutchison is set to take advantage of the business aviation services market in Greater China – expected to rank as the third largest business jet market by 2022.

Beyond Gama Hutchison's current activity, which includes operating three aircraft on behalf of its owners in Hong Kong, the joint venture is developing further capabilities in the region by drawing on its Group competencies. The company has established a regional platform offering aircraft management and maintenance for the Asia Pacific, including China and the remaining region such as Indonesia and the Philippines, which it will use as a starting point for further geographical reach.

A main focus area within Gama Hutchison's development strategy will be in addressing the lack of slots and resulting congestion by establishing Fixed Based Operations (FBO), allowing for control of its land and take-off space. Establishing FBOs throughout the world where there is not a significant amount already, such as the Sharjah International Airport, is one of the distinct ways in which Gama has set itself apart as a positive alternative for its customers – a distinction the company will apply to its Asia Pacific operations. Looking ahead, Gama has also hinted at the idea of augmenting its existing infrastructure by consolidating to create coexistence of its commercial and business aviation areas.

Gama Aviation Plc is an affiliate of Crescent Enterprises.

CE-VENTURES READIES FOR FIRST BUSINESS TO LAUNCH

"Testing Prototypes for Perfection"

The CE-Ventures team visits workers in the UAE to introduce the prototype designs of its industrial clothing for testing.

Amongst an impressive line-up of projects set for announcement in the coming months, is one of CE-Venture's unique business concepts that taps in to the two most prevalent elements that blanket the GGC, hot weather, and the boom of construction.

So where does CE-Ventures come in? The incubation hub has recognized a disconnect between the extreme environmental conditions of the region and the attire of its workers. As result, CE-Ventures has conceived, designed and is now testing high technology industrial clothing that specifically addresses not only the environmental elements of heat, humidity and dust, but safety for these employees as well. The new design also takes into account a significant humanitarian aspect, which is an essential element of CE-Venture's business model, ensuring large numbers of workers are responsibly equipped by companies.

Of course, with any great idea requires meticulous planning and testing to ensure that the outcome is exactly as it was envisioned, which is why CE-Ventures took its testing phase to an entirely different level by employing three streams of stakeholder engagement. Knowing that feedback from individuals directly involved or affected would be its greatest insight, the CE-Venture's team visited countless construction sites and held discussions with various workers across the GCC, collecting information from foremen and safety engineers to make any necessary alternations to the original design. After numerous brainstorming sessions and multiple reiterations, the team developed 12 different industrial clothing designs, each featuring unique innovations all aimed at keeping the workers safe, cool and comfortable.

The second testing phase required evaluating the practicality of the designs, which was handled via focus group sessions and stakeholder interviews with everyone from CEOs to safety engineers, procurement officers, foremen, and workers. With feedback from multiple audiences CE-Ventures narrowed down the final design concepts to three uniform versions.

Last, but not least, was the task of putting these prototypes designs to the test. To get as accurate feedback as possible, CE-Ventures launched testing with industrial workers in the UAE, including collaborations with Gulftainer at its Khorfakkan Container Terminal, comprising of 7 rounds of prototypes over a period of one year.

After a total of two years of steadfast work, from market research and partnerships with leading industrial and engineering design firms to testing on multiple levels of stakeholders, CE-Ventures is in the final stage of producing its first batch of industrial clothing, which it will present as a test design to potential clients.

CE-Ventures is a division that internally develops early stage concepts into viable business.

PRIVATE EQUITY INVESTMENTS

TVM CAPITAL HEALTHCARE PARTNERS - HEDOSOPHIA MENA - WAMDA MENA VENTURES I

TVM CAPITAL HEALTHCARE PARTNERS

"Tapping in to the Southeast Asia Market"

TVM Capital Healthcare Partners (TVM) has not been one to shy away from opportunities amidst economic uncertainty, which holds true in its recent plans to expand its reach in Southeast Asia's emerging market space. As an initial step, TVM will utilize a partnership with three healthcare professionals in Singapore, acting as external advisors to the Dubai-based investment team.

TVM | Capital
HEALTHCARE PARTNERS

The healthcare professional team will comprise of Dr. Ronald Ling, who has over 20 years of experience in healthcare companies including private equity investment roles, and will act as an operating partner; Karen Tay Koh who worked as a deputy CEO of SingHealth with extensive experience in private and public sector organizations in healthcare and education, who will act as a senior advisor; and Hui Hsing Ma who has worked with TVM Capital Group, and will act as a senior advisor.

Optimism remains high for the Southeast Asia venture as TVM declares that its extensive expertise and best practice approach in other emerging market areas, as well the USA and Europe, along with its ability for global collaboration, partnership forging with government policy initiatives and private expertise, will enable it to succeed.

The news of expansion and redirected focus comes after TVM announced plans to raise US$300 mn for investment in a new emerging markets-focused fund, TVM Healthcare III. The Fund will invest in up to 12 healthcare companies in the Middle East and North Africa, India, and Southeast Asia with a focus on growth capital investments.

Crescent Enterprises is a Limited Partner of TVM Capital Healthcare Partners.

HEDOSOPHIA MENA

"Uber China Breaking through Obstacles"

Uber China currently serves more than 50 cities across China, which is expected to rise to 100 cities by the end of 2016.

Technology has taken a hold of every aspect of our lives, opening doors in the world of business to not only create new services and products, but platforms that have changed the way in which operations are conducted. Uber is a direct result of this technology transformation, leading the way for public transportation as a multinational online taxi dispatch company that offers rides to passengers through a web application.

Today, Uber celebrates a presence globally, and leading amongst its competitors in a number of markets. However, like any new venture that is formulated to shake up a business ecosystem, there will be obstacles, which is the case for Uber China, claiming to have lost US$1 bn a year battling its marketplace competition and needing to address cultural and regulatory measures set by the country. The good news though according to its CEO, Travis Kalanick – give it just two years and all of the hard work will pay off.

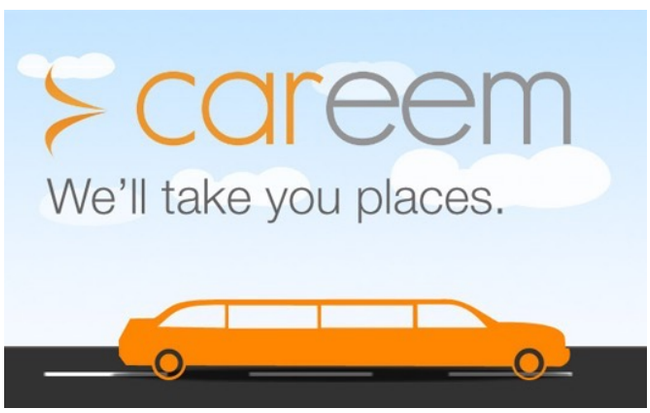
Regardless of the current obstacles, Uber China has maintained its strategy of growth, by bringing its services to 18 additional cities across the country, with a total of 50 cities for operation and an expected 100 cities by the end of the year. Moreover, Uber is currently valued at over US$50 bn, and has expanded more quickly globally than any company in history with operations in 300 cities in over 60 countries. With these promising figures, it is no surprise to see Uber's further expansion in to Pakistan in March of this year, part of a US$ 250 mn drive into central Asia, the Middle East and North Africa. Uber launched its low-cost uberGo service across Lahore at 13.7 Pakistani rupees (13 US cents) per km to attract as many customers as possible. Additionally,Uber has also adjusted its original model to suit preference and norms of Pakistan, including the cash payment instead of credit cards and finding ways around the country's low-internet usage rates.

Crescent Enterprises is a General Partner and a Limited Partner in the Hedosophia MENA platform.

WAMDA MENA VENTURES I

"Booking your CAREEM just got Easier with the Entertainer"

Not just another taxi service, CAREEM was launched as a pioneering company in the MENA Region to revolutionize the transportation and logistics industry and introduce the idea of a sharing economy. The leading app-based chauffeur car service, although similar in the aspect of booking for services such as Uber, sets itself apart with an entirely different business model using corporate cars and licensed chauffeurs. The unique business was launched in Dubai in 2012, and today, operates in 27 cities across the MENA Region and over the last four years has seen over 30% growth month-on-month.



Established in Dubai in July 2012, today CAREEM operates across 27 cities in the MENA Region.

Adding to its already successful business model in the region, CAREEM has strategically partnered with the Entertainer, making it the official transportation provider for its users. Now riders will be able to access CAREEM via the Entertainer app in Dubai, Abu Dhabi, Riyadh, Jeddah, Qatar, Bahrain and Kuwait.

A Series C investment of US$60 mn with The Abraaj Group (Abraaj) as lead investor, and participation from Wamda in 2015, is being used to accelerate market expansion and innovation in CAREEM's car service across its core markets in the MENA Region, Pakistan and the wider area.

"Wamda Introduces New Podcast Series on Tech in the MENA Region"

Wamda Capital, part of the Wamda Platform, invests in transformational businesses across the MENA Region, which support entrepreneurs in realizing their aspirations.

While talent and entrepreneurial development taking place across the MENA Region has been highlighted on the Wamda website, the platform is taking it to the next level as it enters the the radio waves (or should we say wi-fi waves) with its newest form of audience engagement, Wamda Capital podcast series. The new series will invite guests from across the MENA Region to spread knowledge and awareness specifically on technology – ranging from tech issues to features on tech start-ups throughout the region.

In the inaugural episode, 'Welcome to the Wamda Capital', led by Partner of Wamda Capital, Fares Ghandour, invites guests, CEO Fadi Ghandour, and Managing Partner Khaled Talhouni to discuss Wamda Capital's investment strategy and provide advice for start-ups.

To listen to Episode 1 of Wamda Capital's podcast: 'Welcome to Wamda Capital', click here.

Crescent Enterprises is a Limited Partner in Wamda MENA Ventures I.

Crescent Investments is the division, which holds all of the private equity and other strategic investments of Crescent Enterprises. With a long-term view, its strategy is geared towards maintaining a balanced portfolio of alternative asset class investments, including private equity, venture capital and other structured investments.

CORPORATE CITIZENSHIP

AMERICAN UNIVERSITY OF SHARJAH - EWS-WWF

AMERICAN UNIVERSITY OF SHARJAH

"Crescent Enterprises Provides Advice and Expertise to Students"

Crescent Enterprises has celebrated a fruitful relationship with American University of Sharjah (AUS) for several years now, which has afforded it the opportunity to support a number of the school's initiatives aiming to develop its students into our successful change makers and future leaders. In recent months, Crescent Enterprises' management was invited to take part in the AUS Enterprising Youth event in collaboration with the Sharjah Entrepreneurship Center (ERAA), providing their professional expertise, advice and encouragement to AUS students preparing to enter the workforce and/or choose an educational path. Approximately 300 students participated in the event's activities, which concluded with a start-up pitch competition. Out of 24 teams pitching their business venture to a panel of judges, five were chosen to receive financial support. The winning team, 'Synapse' which is an online platform for procurement negotiations between SMEs and suppliers, received AED 10,000 seed funding to start their business, while the remaining teams were awarded with AED 1,000 each to further fund their business ideas.

'What Every Entrepreneur Needs to Know About UAE Law'

Knowing the Ins-and-outs to the legal process and system in the UAE when starting a company can often be one of the most critical elements of the entire process, especially given the uncertainties of the legal structure of the region and what may or may not currently exist. Kirsty Smallman, Head Legal Counsel of Crescent Enterprises filled these gaps, providing high points on the different types of companies/legal entities in the UAE and the critical points one must take into consideration when preparing to set-up and run a company.

Kirsty Smallman, Head Legal Counsel of Crescent Enterprises discusses UAE law with students of AUS.

'Beyond the Elevator Pitch: Winning Support for Your Ideas'

With entrepreneurship and investment booming across the region, Ghada Abdelkader, Manager of Corporate Development and Investment, took the opportunity to provide insight to a packed room of students on how business plans are assessed from the perspective of an investor. Attendees were led through a series of critical steps from developing a business plan, and preparing for the pitch including how to define what you need from an investor and how to tell your story clearly, to taking the leap in presenting your idea.

'The Big Idea: Innovation and Entrepreneurship'

Building a culture of entrepreneurship and innovation among the region's youth in response to the shifting post-oil economy has become top priority when it comes to the educational system curriculum. Alongside a panel of regional leaders in business, Tushar Singhvi, VP of Corporate Development and Investment, delved in to the topic of innovation, the role this plays in business as it relates to the current climate and the interest of young minds in the region. Students were given a lively session surrounding points on the skills and attributes necessary for an innovator to achieve success, what governments and society can and are currently doing to encourage more creativity, and how universities can build a spirit of entrepreneurship for their fresh graduates. In addition to providing an in-depth perspective to these points, Tushar explained that there are a few crucial elements to starting a company that a young entrepreneur should to take into consideration, which includes: having a strong vision and clear focus, preparing a solid strategic plan for raising capital, conducting extensive research on the industry and key players, knowing the market and specifically in this region looking at which countries offer the right incentives to make the process as easy as possible.

Crescent Enterprises is a partner of American University of Sharjah.

Ghada Abdelkader, Manager of Corporate Development & Investment of Crescent Enterprises provides insight on the keys to a winning business plan and pitch.

Tushar Singhvi, VP Corporate Development & Investment of Crescent Enterprises provides insight on the role innovation plays in business.

EMIRATES WILDLIFE SOCIETY - WORLD WIDE FUND

"Crescent Enterprises Rolls Up its Sleeves to Plant Mangroves"

Crescent Enterprises employees spent a day at a UAE reserve with EWS-WWF planting mangroves and learning about local initiatives that are protecting the regional environment.

Crescent Enterprises employees recently took the opportunity to not only give back to the community in nature, but to also learn a bit more about the UAE culture and the special initiatives in place protecting the environment. With the support of its corporate citizenship partner, Emirates Wildlife Society – World Wide Fund (EWS-WWF), volunteers were led to an exclusive costal sanctuary and reserve on the edge of Dubai, to plant mangroves, which are essential ecosystems for wildlife and instrumental in reducing global warming, and to participate in an interactive presentation on environmental threats and resolutions to the region.

"Sustainability Speaking Series: Energy Efficiency in the Private Sector"

Crescent Enterprises' launched 'Energy Efficiency in the Private Sector', the first in a series of 'Sustainability Talks' as part of the company's internal corporate citizenship motivations for the year for its employees. Attendees welcomed Nadia Rouchdy, Project Manager Climate & Energy Finance, EWS-WWF, who spearheads the development of research to support wide-scaled efficiency of UAE corporates and in driving partnerships that promote dialogue and action on energy and water efficiency. Part of her work also includes leading the development of EWS-WWF's climate risk analysis to provide the UAE with a first-hand look at the anticipated impact of climate changes in the country. By hosting discussions such as the one presented to Crescent Enterprises on efficiency from a private sector perspective, and offering insight on how to mitigate and adapt, Nadia is aiming to develop local context for the international climate negotiations from a UAE perspective.

Crescent Enterprises employees learn about effective means of energy efficiency in the private sector from Nadia Rouchdy, Project Manager Climate & Energy Finance, EWS-WWF.

For more information on EWS-WWF visit:

www.uae.panda.org

Crescent Enterprises is a Platinum sponsor of EWS-WWF.

INDUSTRY EVENTS & REPORTS

DUBAI GLOBAL CONVENTION - PEARL INITIATIVE

DUBAI GLOBAL CONVENTION

"Neeraj Agrawal Addresses Innovation for Business Excellence"

Neeraj Agrawal, Executive Director of Crescent Enterprises delivers an address on Innovation for Business Excellence at the Dubai Global Convention's 26th World Congress.

Dubai recently hosted the Dubai Global Convention's 26th World Congress on Leadership for Business Excellence & Innovation, bringing together the region's most foremost thought leaders to discuss embracing the rapid changes in technology and contemporary business environment in order to navigate a sustainable economy. This year's theme 'Empowering Boards to Become Instruments of Innovation & Excellence,' explored ways in which businesses and their leaders can best remain relevant and competitive, while stimulating innovation and achieve the corporate responses that are required.

Neeraj Agrawal, Executive Director of Crescent Enterprises, was invited to deliver a special address for the event, highlighting synergies between strategy and innovation, supporting creativity across the value chain, and making business innovation work for society.

As Neeraj explained, those who live and work in the Gulf, enjoy the benefits of visionary planning and well-executed governance, with the UAE a prime example. Not only has the country transformed new concepts and ideas into reality, built a solid infrastructure and adopted excellent best practices, the UAE is exceptional in conceptualizing blueprints that hold out a promise of far-reaching economic growth and social stability – at the centre of which is innovation.

Citing Crescent Enterprises as a company that has taken these ideals to heart, Neeraj explained how the Sharjah-based company, which operates on a global scale transforms innovative ideas into viable businesses with a strong focus on governance as well as corporate citizenship.

About four decades ago, Crescent Group became the first company in the MENA Region to enter the formal cargo trade industry via its leading ports and logistics subsidiary Gulftainer and the development of the Sharjah Container Terminal (SCT). The world had moved from bulk cargo trading to containerized shipments only a few years before SCT was established in 1976, a decision which gave the UAE a head start in trade innovation. Today, Gulftainer is the world's largest privately owned container terminal operator and its Khorffakan Container Terminal is ranked among the top three ports in the world. The journey of Gulftainer, Neeraj explained, is perfectly described as one of business innovation.

From an innovative governance perspective, Crescent Enterprises has also shined, by conceiving and launching the Pearl Initiative, a private sector initiative in partnership with the United Nations Office for Partnerships to foster a corporate culture of accountability and transparency. The organisation has engaged with thousands of CEOs and a growing number of companies have taken part in its programmes. Today, its membership consists of 60 leading UAE, regional and multinational companies, which is expected to grow to 100 in the next two years. The Pearl Initiative has also worked with 5,980 students in 25 universities across the Gulf Region in workshops, seminars and high-profile case study competitions, and hosted 65 roundtable forums across major cities in the Gulf Region that convened 5,480 business leaders.

On a more macro-perspective, the government has also illustrated exemplary innovation on multiple levels. Dubai for example, has set a strategy for 2021, which includes three-year Key Performance Indicators (KPIs) for 46 ministries and regulatory agencies to fulfill, ranging from improving the success of Dubai youth in global science, math and reading exams to making it easier for individuals to start a new business. Moreover, 3,600 KPIs are loaded on an iPad dashboard that the ruler, Vice President and Prime Minister of the UAE and Ruler of Dubai, HH Sheikh Mohammed bin Rashid Al Maktoum, follows each week. HH Sheikh Mohammed insists, "Every government agency performs as well as the private sector in customer satisfaction and service."

Concluding the address, Neeraj stated that while there are impressive results in GCC countries' innovation strategies, a challenge of sustaining and expanding their successes still exists, leaving opportunity to strengthen innovation linkages between different stakeholders. Meanwhile, the UAE is on the cusp of a major transformation, where future lives and cities will be all about innovation and excellence.

PEARL INITIATIVE CELEBRATES 5 YEARS OF ACHIEVEMENTS

"Raising Corporate Governance Standards Across the Region"

In just five years from inception, the Pearl Initiative, of which Crescent Enterprises is a Founding Partner, has amassed an impressive list of notable achievements across the region. An organsation with a mission to fostering a corporate culture of accountability and transparency, the Pearl Initiative's advocacy work thus far has influenced a significant change from both an economic and educational perspective, and ultimately opened numerous doors for the region on an international scale.

Highlights of the Pearl Initiative's achievements from 2010 to 2015 include:

- **Reports** – Published seven Gulf-focused practical insight, guideline, research, case study and infographic reports, including the latest, 'At a Glance: A Practical Guide to Anti-Corruption in the Gulf Region'
- ' **University Outreach** – Engaged with 5,980 students in 25 universities across the Gulf Region in workshops, seminars and high-profile case study competitions
- **Forums** - Hosted 65 roundtable forums across major cities in the Gulf Region that convened 5,480 business leaders, who shared ideas, experiences and best business practices, with an aim to raise standards of corporate accountability, transparency and governance

In addition to celebrating the success of the organisation thus far, at the latest Board of Governor's meeting in Doha, Qatar, the Pearl Initiative also revealed its strategic plans for 2016 as well. The Pearl Initiative's vision remains to contribute in shaping a thriving economy in the Gulf Region, underpinned by a strong Private Sector that embraces good governance as a pillar for sustainable growth. The first of the organisation's intentions is to expand the scope of its existing programmes and initiatives to include a collective action programme on "Implementing Integrity Practices in GCC Private and Public Business" in collaboration with the Siemens Integrity initiative. In addition, the Pearl Initiative will place a special focus on the SME and start-up sector, as well as launch a GCC-wide case study report that will build on its "Diversity in Business Leadership" programme.

To learn more about the Pearl Initiative visit www.pearlinitiative.org.

Crescent Enterprises is a Founding Partner of the Pearl Initiative.

CORPORATE INSIGHT

PRIVATE EQUITY INSIGHT - HARVARD BUSINESS REVIEW

PRIVATE EQUITY INSIGHT: TUSHAR SINGHVI

"The Secrets of Value Creation"

VP Corporate Development & Investment, Tushar Singhvi

New market forces at play such as slower economic growth, tightening of the credit markets and industry consolidation are driving operational value creation to the forefront of the private equity industry. Long gone are the days when private equity firms could create value simply through multiple arbitrage and leverage, and as a result, operational improvement, on both the cost and revenue sides of investee companies are now the main source of value created by private equity. With no cookie-cutter approach that can be applied to realizing operational alpha, private equity firms have been experimenting with a variety of models, each defined by the internal operational value infrastructure created by the firms. And so the question at hand is how corporates and private equity management teams create value across different investment strategies? According to Tushar Singhvi, VP, Corporate Development & Investments, there are several aspects that need to be taken into consideration.

Private equity firms typically generate returns in three ways: through financial engineering, operational engineering, and governance engineering.

Financial Engineering

Financial engineering encompasses a sleeve of different strategies, including using debt to finance the investment, changing the capital structure of the investee company in addition to astutely addressing and mitigating tax liabilities. Beyond the amplification of returns to equity, properly executed financial engineering can also support effective development and broadening of a portfolio company's opportunity set: from geographic expansion, to platform acquisitions, and even to dividends for owners as deal-specific events warrant. However, in the aftermath of the financial crisis and despite the low interest rate environment, regulatory curbs on leverage have resulted in the drying up of bank financing for leveraged buyouts. Multiple arbitrage, another commonly used lever for value creation by private equity firms, has also become very challenging to achieve with rising valuation multiples, fueled by intensified competition due to record high levels of dry powder. The average enterprise multiple (EV / EBITDA) for acquisitions in the period 2010-2015 was 10.6 in comparison to 8.9 in the preceding five years, so the 'buy low, sell high' mantra is becoming increasingly difficult to achieve. Hence, the impact of financial engineering on overall returns and value creation has diminished significantly over the last few years and with continued low levels of debt and high acquisition premiums, this trend is expected to continue in the short to mid-term.

That makes operational engineering and governance engineering the two key value levers in today's private equity landscape.

Operational Engineering

Operational value add is essentially geared towards enhancing the fundamental value of a business, as reflected in a growth of earnings. This can be achieved through professionalization of management, the introduction of best practices, the achievement of access to new markets, the scaling up of business footprint and reach, the streamlining of processes, and the generation of cost efficiencies. However, the relentless focus on cost cutting in response to the financial crisis making companies much leaner means that there will be fewer "quick wins" available for bottom-line operational improvement. As a result, the ability to generate operational value will increasingly depend on a firm's ability to develop and grow the business and improve the top line of its portfolio companies.

Given the muted outlook for global economic growth, delivering value accretion through operational engineering presents a stiff challenge. A BCG study estimated that in order for an investor to yield an internal rate of return (IRR) of 25 percent in the current market environment, the business will have to deliver an average annual growth in earnings before interest, taxes, depreciation and amortization (EBITDA, a proxy for fundamental value) of 11 percent. To achieve this task, private equity firms have been adopting a variety of operating models, ranging from building internal operational capability either by getting functional operating partners on board or building entire operating teams with functional and sector-specific expertise within the firm; or models which rely on a network of external advisors to provide leadership on operational value creation. Advocating and building operational capabilities requires active investment in business processes, human capital, and a long-term horizon. Irrespective of the operating model, it is key to have standardization of operational improvement practices, both top line, and bottom line initiatives, which can then be honed and replicated across other portfolio companies. Successfully creating operational value through this approach also requires a new kind of partnership between general partners/investors, operating personnel and the company management, which would involve increased professionalization, new ways of teaming, with more explicitly defined roles and responsibilities.

Private equity firms and corporate investors need to relentlessly focus on value creation throughout the entire investment life cycle, even before the initial investment is made. Insights are formed based on identified issues and upside opportunities, such as revenue growth and margin enhancement. Those insights, in turn, are used to develop a handful of targeted performance improvement initiatives. Best practice involves developing a road map that details key activities; highlights expected results; assigns responsibilities; identifies key milestones, and develops key metrics and dashboards for tracking performance. Quick wins generating additional value should be accomplished as early as possible to gain stakeholder confidence for the mission ahead and to generate cash to fund longer-term investments. Value is created by leveraging a comprehensive framework to translate the investment thesis into results. This would involve:

- Developing plans to address strategic requirements
- Determining, prioritizing and implementing key value drivers, including high-impact operational improvement initiatives to drive revenue enhancement, margin improvement, and capital efficiency
- Establishing key enablers (i.e., people, processes and systems) to make a permanent shift in performance

In the regional context, given leverage was never widely available for transactions, operational engineering, and governance engineering remain the key tools for value creation in the MENA Region. With over 85% of the region's businesses being family-owned, there are fewer businesses open to diluting to third party capital and having a lesser degree of control. This, compounded by an increased gap in valuation expectations, has resulted in a huge amount of dry powder chasing a smaller number of deals, driving up asset valuations and hence diminishing value creation opportunities through multiple expansion. While a flurry of big deals pushed global M&A volume in 2015 to a record US$4.6 trillion, transactions between parties in the Middle East totaled only US$12.7 billion in 2015, according to Thomson Reuters.

Governance Engineering

Through governance engineering, private equity funds and investors improve corporate governance practices and strengthen the management of these firms through active engagement and providing best practices with a longer term focus. This includes establishing a strong and independent board structure (with an appropriate balance of executive and independent directors) supported by strong committees; ensuring transparency, ethical business conduct and integrity; and most importantly, devising objective incentive schemes (through stock options and other performance linked instruments) to ensure full alignment and to motivate management to achieve the long-term business objectives.

Good corporate governance enhances value in a number of ways:

- Firstly, it sends a positive signal to investors and promotes market confidence – which in turn affects firm value, which can be validated by several studies that prove investors attach a premium to businesses with a solid corporate governance framework.
- Secondly, it mitigates risk and can well be the difference between the success and demise of a business, preventing fraud and sustaining the enterprise value of a business. In addition, good corporate governance leads to more efficient management, better asset allocation and greater efficiency improvements.
- Finally, solid corporate governance can impact the availability and cost of capital of a business. As such, good governance and robust internal controls can be considered key drivers for long-term value enhancement. Strong frameworks can lead to a more efficient use of capital and attract investors at a lower cost of capital.

Corporate governance is an area which should be looked at across all stages of the investment lifecycle, from pre-acquisition to exit stage, to ensure that the portfolio company is an attractive investment to potential acquirers. Every company is different and therefore, corporate governance needs to be tailored accordingly to minimize risk and maximize value.

In the MENA region, as in other emerging markets, governance issues are compounded by the lack of developed capital markets infrastructure and legal institutions for financial transactions, which undermines the enforceability of contracts. Further, given managers' limited experience with equity-linked compensation in the MENA region, the uncertain and complex tax implications in some jurisdictions, as well as the absence of large, liquid public markets to fairly value such instruments, these compensation structures are not popular. Managers continue to prefer short-term cash bonuses, which makes aligning managers' incentives with long-term goals difficult.

Over the past few years, there have been considerable efforts to upgrade the quality of corporate governance in the MENA Region which is viewed as a critical element to protecting and growing value. In the recent Crescent Enterprises' report 'Corporate Governance for Competitiveness in the MENA Region', we noted several broad points indicating the premium on good governance in emerging markets, including:

- Well-governed companies attract greater investment, trade at a premium, are better equipped to deal with volatile economic environments and are more sustainable in the long-term
- GCC equity markets are currently opening to greater institutional investment, and good governance of listed companies is critical to attracting active portfolio allocations of foreign institutional investors
- The sustainability of family businesses and avoidance of colossal value destruction is contingent on robust corporate governance structures that would enable adequate succession planning and the development of technical expertise necessary to support innovation

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