

# **Private Equity & Corporate Advisory**

*January 2010*



# Contact



## European Islamic Investment Bank Private Equity and Corporate Advisory

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# Team



**Robin Henshall**  
**Head of Private Equity**  
**and Corporate Advisory**



Robin Henshall has over 22 years international private equity and investment banking experience. Previous roles included Partner at City Capital Corporation, a London-based international investment banking and hedge fund boutique, Managing Director at Bank of America, Head of SG Barr Devlin in Europe, the power & utilities investment banking arm of Societe Generale, Head of the European investment banking group covering the power & utilities, energy and transport sectors at Donaldson, Lufkin & Jenrette, co-head of the European power & utilities sector investment-banking group at Credit Suisse First Boston and head of the European power & utilities sector investment-banking group at UBS Warburg.

Robin Henshall has an MBA from London Business School and a BSc in Physics from Durham University.

**Marcus Scott**  
**Managing Director**  
**Private Equity**  
**and Corporate Advisory**



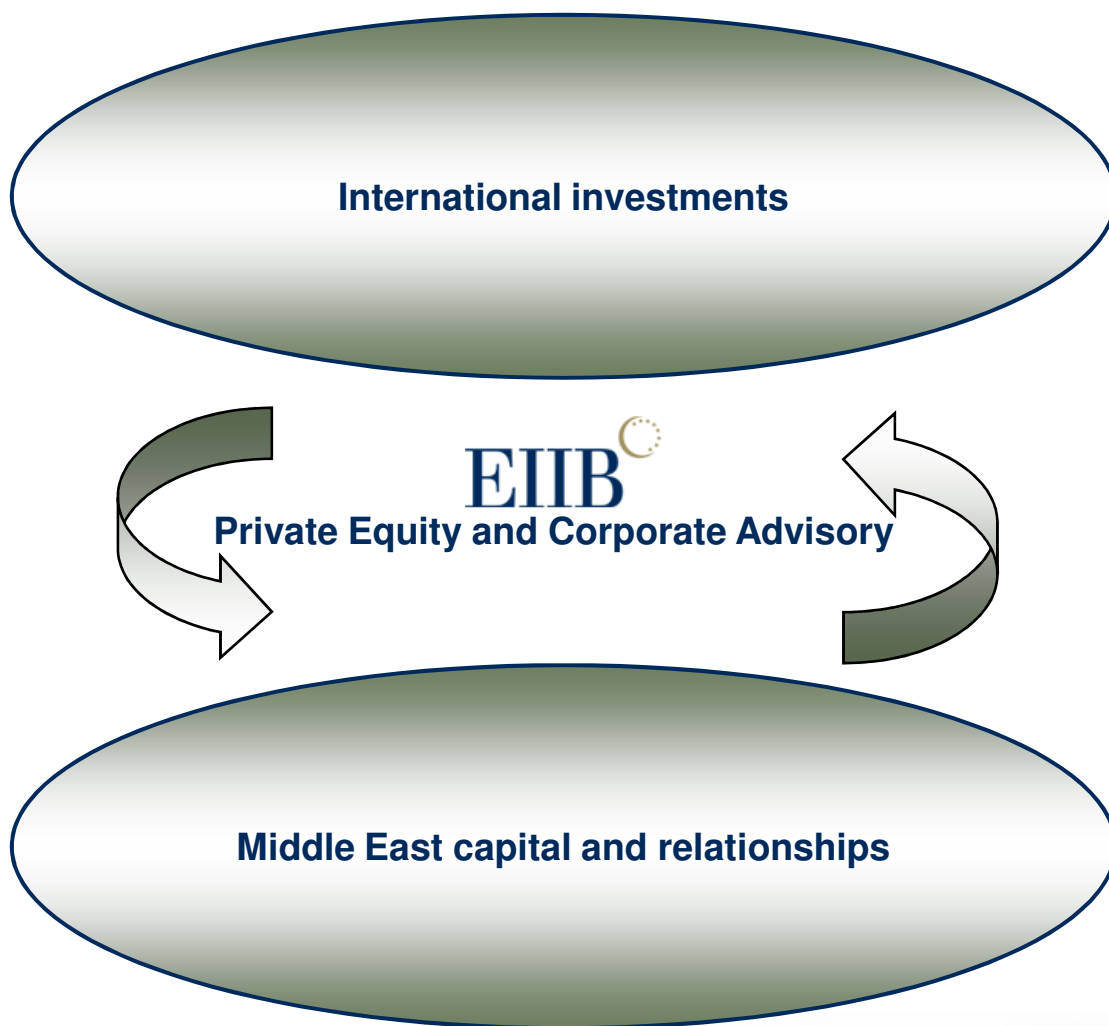
Marcus Scott has over 14 years international private equity and investment banking experience. Prior to EIIB, he was a Partner at City Capital Corporation, Vice President in Equity Capital Markets at Credit Suisse and Donaldson, Lufkin & Jenrette and an Associate at Salomon Brothers International. Marcus Scott has worked across a wide range of sectors and geographies but has had a specific focus on Emerging Markets including Central and Eastern Europe and Russia.

Marcus Scott has an MPhil in Management Studies from the University of Oxford and a Bachelor of Commerce from the University of Auckland, New Zealand.

## Team

The Private Equity and Corporate Advisory team includes executives and support staff and operates from London. The team works in close co-operation with EIIB's executive team based in Bahrain.





# Deal characteristics

- **Typical deal size of \$10m to \$75m equity per deal**
  - Partners and key investors typically invest alongside EIIB
  - Structure means that larger deals might be undertaken
- **Key features for the current economic environment**
  - Strong management team and business proposition
  - Funded/able to survive the downturn
  - Positioned to emerge strongly from the downturn as it ends
- **Target mid-market companies**
  - Established revenues required for general corporates
  - Late stage resource development required for natural resources companies
  - Profitable or clear path to profitability/cash generation
  - Smaller companies considered on a case-by-case basis
- **No geographic restrictions**
- **Flexible approach to investments**
  - Buy-outs
  - Take privates
  - Majority positions
  - Minority positions
  - Private investments in public companies – “quoted private equity”
  - Joint venture vehicles
    - Middle East companies in JV with western companies
- **Primary investment/expansion capital strongly preferred**
  - No cash withdrawal by ongoing management
- **Preference for one of two return profiles**
  - Low risk, protected yield return
  - High IRR/high cash multiple return



- **Themes which resonate with the Middle East**
  - Demographics - young and rapidly growing population
    - Sports, Education, Restaurants, Health care
  - Economy – based on extractive industry
    - Oil & Gas, Mining
  - Economy - continuing expansion
    - Infrastructure related services, Transport and logistics, Applied technology, Electricity, Housing, Offices
  - Environment - hot and dry
    - Water, Waste management, Solar power
  - Culture – Islamic ethos
    - Retail, Brands, Food and drink, Personal well being
- **Themes which relate to current global market conditions**
  - Recessionary environment
    - Companies relatively unaffected by or even prosper in a downturn
    - Companies that emerge early from a downturn
  - Financial engineering to be avoided
    - Sharia'a compliance issues
    - Business imperative issues



- **EIIB is sector agnostic, subject to Sharia'a compliance**
- **Certain sectors are of particular interest**
  - Energy
    - Oil & gas, renewables, utilities
  - Natural resources
    - Water, agriculture, forestry, mining
  - Healthcare
    - Pharmaceuticals, clinical care
  - Transport and logistics
  - Consumer
    - Food and drink, retail, luxury goods
  - Support services
  - Applied technology
    - Applications, services
  - Others considered on a case-by-case basis
- **Exclude non-Sharia'a compliant**
  - Alcohol, tobacco, pork products, most conventional financial services, much defence/weapons sector and much of the entertainment sector



**November 2008**

**Acquisition  
of  
26% stake  
in**

The logo for DiamondCorp PLC, consisting of a stylized purple diamond shape on the left and the text 'DIAMONDCORP PLC' in a bold, black, serif font on the right.

- **DiamondCorp is listed in London (AiM) and Johannesburg (JSE)**
- **EIIB invested £1.8m into DiamondCorp by way of a placing of new shares at 45p on 8 November 2008**
  - 9.7% of the enlarged share capital
  - 10% discount to the 30 day volume weighted average price
  - 50% discount to the February 2007 IPO price
- **EIIB invested £3.1m in purchasing DiamondCorp shares at 45p in the secondary market on 12 November 2008**
  - 16.4% of the issued share capital
- **EIIB has been offered two out of six Board seats**

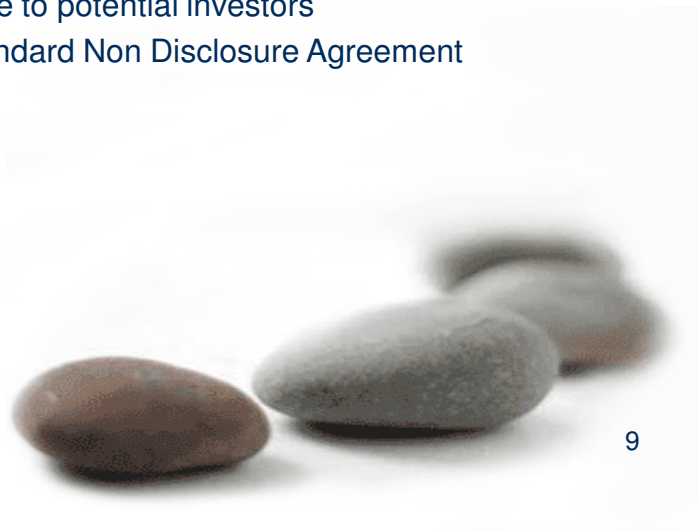
“This investment demonstrates EIIB’s confidence in the underlying fundamentals of the diamond market, including the long-term supply shortage which should lead to a strengthening in diamond prices. Any company is only as strong as its strongest shareholder, and DiamondCorp’s plan to grow as a mid-tier diamond producer in the years ahead has the potential to benefit from EIIB’s access to capital and backing by very large Middle Eastern investors,”  
Paul Loudon, Chief Executive, DiamondCorp Plc



**March 2009**

**Acquisition  
of  
91% stake  
in an  
Oil & Gas Development Company  
Operating in the United States**

- **The company identifies and extracts oil & gas**
  - Uses new technology and techniques
  - Addresses previously produced oil fields
  - Targets overlooked geologic formations
- **EIIB invested \$13m out of a total commitment of \$20m**
- **EIIB invested alongside well known GCC shareholders**
- **5 wells have been drilled so far with excellent results**
  - Initial flow rates indicate a major discovery
  - Drilling programme accelerating due to a sharp fall in drilling costs
- **Commercial sensitivities mean that details cannot be disclosed**
  - EIIB can provide full disclosure to potential investors
  - Requires signing of EIIB's standard Non Disclosure Agreement



# Middle East network



# Middle East network



Jordan  
▪ 10 investors

Saudi Arabia  
▪ 150 investors

Kuwait  
▪ 40 investors

Pakistan  
▪ 10 investors



Bahrain  
▪ 5 Professionals  
▪ 160 investors

Qatar  
▪ 60 investors

UAE  
▪ 150 investors

Oman  
▪ 15 investors



EXCHANGE FOR THE BETTER > TUNING IN TO IPTV > RISK OF REWARDS

# REAL DEALS

24 July 2008 For Europe's private equity professional

» EUROPE

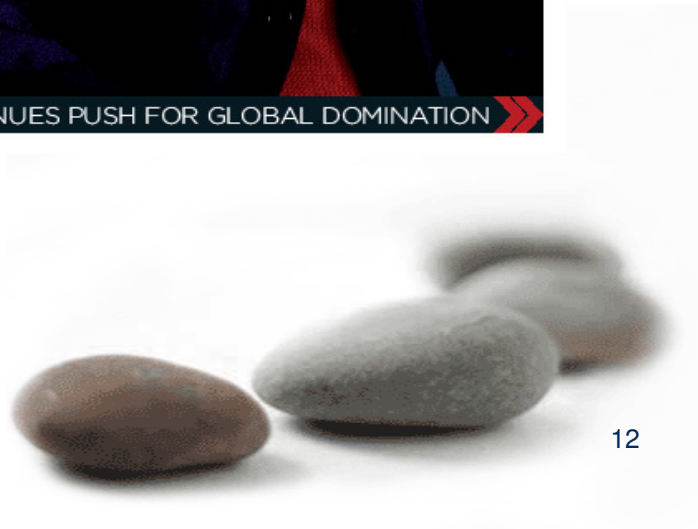


**OIL RICH,  
DEAL  
HUNGRY**

The launch of the European Islamic Investment Bank heralds a new wave of arrivals from the East.

[WWW.REALDEALS.EU.COM](http://WWW.REALDEALS.EU.COM)

Q&A: THE RIVERSIDE COMPANY CONTINUES PUSH FOR GLOBAL DOMINATION >>>



# Press coverage



middle east

## GULF STREAM

The European Islamic Investment Bank is the first in a flood of new Middle Eastern institutions combining Western talent with Gulf dollars to invest in the European mid-market.

WORDS **SAMUEL BARTON** PHOTOGRAPHY **RICHARD GLEED**

WHILE THE WESTERN WORLD IS BATTERING down the hatches in preparation for a stormy few years, the Middle East is calmly riding the crest of a wave that shows no signs of fading.

Rising oil prices have created unprecedented pools of money, Gulf real estate values continue an untrammelled rise, and a renewed stream of infrastructure development capital will be needed over the next ten years as the region seeks to surge ahead of Western centres.

But the stock market crash of 2008 stung, and – if they didn't before – Gulf-based investors now have a deep-seated desire to diversify.

"There's more and more liquidity, and people need to put larger amounts of money to work," says Nassim Khalifa, a partner at placement agent MVison. "If oil falls to \$100 a barrel, we're still talking about at least \$50bn of excess liquidity in the market over the next ten years."

West sovereign wealth funds have now intently turned their attention towards the Anglo-Saxon world – handing out huge rescue packages to its beleaguered financial institutions (see *Wealth of Nations*, page 16).

Dubai International Capital has also made a name for itself as a committed mega-market investor, albeit a passive one, in the European leisure and hospitality sectors.

In addition, a small handful of firms managing ultra-high-net-worth Middle Eastern money have become regular features on the European mid-market private equity landscape, not least

investors, which has been investing in Europe since 1982, and Ancapita, which has been active in the region for the past 18 years.

But as local buyout houses retreat to lick their wounds, patiently waiting for the market to bottom out, a new wave of smaller Middle Eastern investors is preparing to target the European mid-market.

**First mover**

The first of these new arrivals is the European Islamic Investment Bank, the first ever Islamic bank in Europe, listed on AIM in March 2006. In April this year, the EIIIB launched a private equity arm in London, to pursue mid-market investments in Europe, the Middle East and Africa.

Robin Henshall, who joined the bank as head of its private equity arm from City Capital earlier this year, says: "We work with a lot of investors in the Middle East, and the bank has access to a whole swathe of investors, so we can do big deals in their own deal size is unlimited."

"Investors in the Middle East have learnt their lesson from what happened in the stock market a couple of years ago. Residents' property prices in some areas are up 75 per cent this year. They know that is unsustainable, and they understand the need to diversify."

The EIIIB will seek to invest between \$20m and \$75m per deal in European mid-market private equity values of \$50m to \$500m.



"There's no one in the same position as we are yet. We'd be happy to see more – it has a market-creation effect."

ROBIN HENSHALL, EIIIB

Like Middle Eastern counterparts Ancapita and Investcorp, it will invest off its own balance sheet and syndicate a proportion of its stake to its pool of investors.

"We will invest first and syndicate later as a rule – keeping around 20 per cent of each investment – but we will also seek co-investing, allowing us to commit to large deals alongside other parties," says Marcus Scott, a managing director at eSili, who also joined from City Capital.

Scott adds that the bank is relatively sector agnostic, but like most Middle Eastern investors favours more traditional sectors, "So property, energy, transportation and logistics, as opposed to high-tech or biotech," he says.

The firm will look to complete between four and six investments a year and will add to its current four investment professionals gradually.

**The next generation**

The EIIIB is still in launch mode and has yet to complete a deal. But even as it readies itself for the off, it is believed that other Middle Eastern investors are preparing to follow its lead.

"We will see more activity in the European market from this type of investor in the coming months," says Simon Tilley, a managing director at Close Brothers.

He adds that an influx of fresh capital could be good news for the European private equity market, as new investors often focus on

secondary buyouts while they hone their deal-sourcing techniques, and so firms like the EIIIB could provide a source of exit.

"They are coming over at a time when deal flow is pretty thin," he says. "But their presence will create more secondary buyout opportunities – Gulf-based investors can help unlock deal-making activity."

However, a gaggle of new, cash-rich competitors also undoubtedly poses a threat. "The next round of buyout activity – in 12 to 24 months – will see Gulf investors becoming very important," says Tilley. "By that time we will have seen many more set up in Europe."

As for the EIIIB, Henshall is phlegmatic about European competition and keen to see other

Islamic banks and investors start their own private equity activities in Europe.

"There's no one in the same position as we are yet. We were the first independent Islamic investment bank in the UK – and we'd be quite happy to see more. It has a market-creation effect and validates the sector," he says.

Starting from scratch in a new market is never a simple proposition, however, and the EIIIB could scarcely be picked a more inopportune moment to begin scouting for deals, as subdued markets and unfavourable credit conditions have sent the private equity industry packing on long summer holidays.

"Now is not a good time to invest in US or European private equity," says a source at one of

**"The next round of buyout activity will see Gulf investors become very important. By then many more will have set up in Europe"**

SIMON TILLEY, CLOSE BROTHERS

the larger Middle Eastern investors. "Private equity firms need to focus on their existing portfolios. There's not that feeling that they are at the bottom of the market yet."

But Henshall is confident that current market problems will not readily affect the EIIIB. "It varies by country and sector. In the UK there is more money than deals, but when you start to get out to other geographies – particularly emerging markets – there are still a lot of deals."

The EIIIB may also be able to take advantage of the fact that Sharia-compliant financing (see box, below) has been less affected by the market troubles that have hit conventional deal providers over the past year.

While several major banks have launched Sharia lines, which have inevitably felt the squeeze, much of this niche financing market remains largely unaffected and in Middle Eastern hands.

Some believe that the EIIIB may nevertheless struggle to identify deal flow on the continent, with its small team and single London office. Indeed, some of the incumbent Middle Eastern investors in Europe are sceptical that any subsequent arrivals will be able to compete seriously for deals.

"We've been here for 11 years, have a track record and so are able to attract top-quality staff," says Ancapita executive director and head of corporate investment in Europe, Mounzer Nasr. "If you want to be able to do good deals, you need to have the credibility to take on seriously by the sellers, you need to have the ability to put together financing, and once you've bought the business you need a strong portfolio management team. It's not just about having the money. It takes time to source top-quality staff and build a reputation."

A scarcity of talent has historically been one of the biggest challenges facing Middle Eastern organisations looking to expand west. Until very recently, the relatively underdeveloped Middle East was not seen as a viable alternative location for the world's top financiers. Add to this the daunting task of learning the complexities of Sharia-compliant investing, and the scarcity of human capital becomes a major stumbling block.

However, a spate of Western institutions expanding into the Gulf region, combined with mass retirements in Western Europe and the US over the past six months, is providing a

valuable stream of willing volunteers and a strong pipeline for future recruitment.

"There are not a lot of experienced people in the Gulf," says one Middle Eastern adviser. "This was the problem we used to have. But we're seeing a lot of big banks moving to the region – and there also are a lot of bankers who are underemployed at the moment."

"To get closer to the mid-market, Middle Eastern investors have traditionally injected capital in to mid-market funds, but there is now an increasing trend to hire professionals," adds Matthew Wood, a director at Mourant in Dubai.

"We're beginning to see the first formulations of very high-quality teams to tap the demand for Islamic investing in the west," says Khalifa.

**Bringing it home**

The EIIIB has followed conventional wisdom and hired local talent. However, the real area in which it hopes to differentiate itself from European competitors is its origins in the Middle East.

The bank intends to exploit its contact base in the region by targeting businesses with expansion plans in the Gulf, according to Henshall, adding that this is often a key investment criterion for wealthy co-investors.

"Gulf investors are interested in backing

companies that are going to bring something back to the region. We can bring in the capital, but we can also take mergers out to the Middle East," he says. "A great opportunity for us would be a company that already has some international operations, but is not in the Middle East yet."

Henshall and Scott see this area as crucial to the firm's success, especially given the proliferation of new entrants to the market in recent years. "Yes there are a lot of private equity firms in the UK and Europe," says Scott.

"How many of these invest in the same size deals as we do? A lot. How many invest in the same size deals in the same sectors as we do? Well, not a lot. But how many compete for these same deals but also have the Middle East angle? Probably none. I can't think of anyone out there that looks like they will."

This regional hook is something EIIIB shares with many of the larger Gulf investors already active in Europe, such as Ancapita, Investcorp and Iktisabah. "If there isn't a hook back to the local market then it often doesn't fulfil investment criteria," says Tilley. "They recognise that European corporates can play an important role in the ongoing development of the physical, social and leisure infrastructure of the Gulf region."

With sprawling wealth underpinning increasing access to funds, a growing supply of local talent and a strong investment angle, Middle Eastern entrants have a good story to tell.

It seems that it is only a matter of time before the next new arrival reaches European shores. "This is a growing market, and it's going to see growth," says Henshall. "This is just the beginning."

SAMUEL BARTON Managing editor of Real Deals.

**SHARIA: A POINT OF INTEREST**

The main concern of Western investors when dealing with Middle Eastern finance is the region's stance on debt. While debt financing is permitted by Islamic law, interest-bearing debt is categorically unacceptable. This means that in the West, where interest on debt is deductible against tax, being Sharia-compliant could be a disadvantage.

However, there are methods under Islamic law whereby, with profit-sharing and equity buyback schemes, banks can provide finance that, while not being interest-bearing, shares many of the features of conventional debt. Indeed, many Western banks, such as HSBC, UBS and Deutsche Bank, have already set up Islamic finance operations to offer this type of product.

The question that then remains is how non-Islamic governments extend to which parts of the Sharia financing structures are the equivalent of interest, and therefore qualify tax relief. This is an area of heightened complexity, and European governments, particularly the UK, are leading the way in the playing field for both forms of finance. Another method popular with Islamic investors is to use a lease financing structure known as *Ijara* to invest in an asset with debt on its books, via a separate vehicle, thus insulating the sponsor from interest-bearing debt. Another option is, quite simply, to invest in companies without a leveraged element.

On the non-financial side, Sharia-compliant vehicles are not allowed to invest in companies operating in a variety of non-Islamic sectors, such as alcohol, tobacco, arms and entertainment. But as Nassim Khalifa, a partner at MVison, points out, this side of Sharia should not present problems in the West. "Many have restrictions that are not dissimilar to an endorsement – so they can't invest in arms, alcohol and gambling, for example. But as investors in a fund, they will have negotiated a side letter that allows them to get out of certain investments."

Here, however, as on the debt side, the situation is far from black and white. In most cases, each firm's investment strategy will be overseen by a scholar in Islamic law or a Sharia committee that will make decisions on what is and isn't acceptable.

But, says one Middle East-based investor, "there's plenty of evidence of people turning a blind eye to Sharia. If they want to get into a fund because of the returns that fund is going to, there's plenty of Islamic money that's not Sharia compliant."

**"This is a growing market and it's going to keep growing. This is just the beginning."**

**"Gulf investors are interested in backing companies that are going to bring something back to the region. We can bring in the capital but we can also take managers out to the Middle East."**

**"The next round of buyout activity – in 12 to 24 months – will see Gulf investors becoming very important."**

**"Sharia-compliant financing has been less affected by the market troubles that have hit conventional debt providers over the past year."**

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