University of Pennsylvania
The Wharton School of Business

MGMT 809-001: Private Equity in Emerging Markets[1]
Spring 2009 Q3
Thursdays, 3:00-5:50 PM

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Course Overview and Design

Two premises have heavily influenced the design of this course: First, the vast majority of companies in emerging markets[2] have limited or no access to medium and long-term capital, creating an opportunity for private equity (PE) to play an enormously important role *both* for the profitability and competitiveness of individual firms, as well as for overall private sector development and macroeconomic growth. And second, PE in developing countries should be viewed as a significantly different asset class than in developed countries because of a daunting range of additional risks and challenges. For example, problems of information asymmetry between investors and their portfolio companies are greater, legal systems are less reliable, corporate governance standards are weaker, regulations and public policies often are counter-productive, and exit opportunities are limited due to small or non-existent IPO markets and underdeveloped M&A markets. But these same risks also create opportunities, especially for savvy PE investors who are able to capitalize on market and company inefficiencies. This course highlights these differences, and explores how PE investors can successfully overcome these obstacles. Students also will be challenged to think about what needs to change at both the company and country levels in developing countries to enhance future PE performance.

The term private equity has evolved to encompass a range of financing techniques that provide investment capital to companies of all sizes, usually before they issue publicly traded securities, including venture capital for early stage companies, equity for well-established firms, and mezzanine debt financing that has some equity characteristics[3]. Regardless of the technique or firm size, however, virtually all PE investors expect to generate high financial returns because these financings are characterized by illiquidity and high levels of risk compared to publicly issued securities. These risk factors and the relatively long-term nature of the investments explain why PE investors are exceptionally rigorous and demanding in the screening, due

[1] This course can be applied towards the requirements for the Entrepreneurial Management Major, or the requirements for the Individualized Major in Private Equity (students interested in the latter should see the requirements listed on the MBA Program website: http://spike.wharton.upenn.edu/mbaprogram/curriculum/majors_depts_privateequity_04.cfm).

[2] For the purposes of this course, the term "emerging markets" refers to all developing countries, including the transition economies of eastern and central Europe.

[3] Buyouts, which have become prevalent in some Western countries, are far less common in developing countries for reasons that will be explored during the course.

diligence, valuation and negotiations that precede a decision about each investment, and then they remain deeply involved with the portfolio companies until an exit is completed.

This course is structured to provide students with a practical understanding of how private equity investments in developing countries are originated, structured, valued and eventually exited. The case method of teaching will predominate, allowing students to gain a realistic understanding of the roles, responsibilities and analytical skills required of practitioners, and the tensions that arise between various stakeholders, including PE investors, the entrepreneurial recipients of PE, and government officials who formulate regulations and policies that effect PE investor behavior and performance. Cases will be based on actual transactions, highlighting the challenges and tasks performed at each stage of the investment cycle, such as structuring a new fund, originating investment opportunities, conducting due diligence and valuation, monitoring and creating value in portfolio companies, and exiting. As with all case method courses, it cannot be stressed too strongly that success hinges on student willingness and ability to prepare meticulously in advance of each class, and then to participate actively in class discussion. Students reluctant to assume this responsibility should not enroll in this course (see “Requirements & Grading,” p.3).

The course is designed to appeal to students with a range of career interests, including (i) private equity (especially emerging market private equity funds), (ii) entrepreneurial business ventures in developing countries and (iii) development finance institutions (DFIs) with a private sector focus.

Qualifying Students

Although the course includes some introductory reading that overlaps with other Wharton course offerings, the majority of material is unique to the course. While there are no pre-requisites, those students who have had or are taking the following courses may benefit from a stronger foundation:

FNCE 750: Venture Capital and the Finance of Innovation
FNCE 751: Finance of Buyouts and Acquisitions
MGMT 804: Venture Capital and Entrepreneurial Management
MGMT 811: Entrepreneurship Through Acquisition

Course Materials and Study Resources

Required: Bulk Pack. “Private Equity in Emerging Markets, 2009 Edition, compiled by Professor Leeds.

Study Groups: Prior to the second class **(January 22)** students should form study groups consisting of five members, and **email the Instructor and both TAs the names and resumes of all study group members.** All students are required to be in a study group, and the group’s members will remain fixed for the entire course. Students with relevant work experience are expected to distribute themselves more or less evenly in the study groups. To ensure that there is a good mix of first and second year students, the Instructor may make changes in study group assignments during the second class.

Each study group will determine its own schedule, agenda and *modus operandi,* but normally the group should meet at least once a week, after students have individually completed their reading assignment and preliminary preparation for the upcoming class. Study group sessions provide an opportunity to exchange views and discuss some of the issues that are likely to arise during class discussion. Reaching a group consensus is <u>not</u> the objective (unless the group is submitting a written assignment).

Term Project: Private Equity Country Analysis

In addition to the weekly case assignments, all study groups will prepare an assessment of the opportunities and challenges for private equity investing in a specific developing country from the perspective of an established PE fund that is contemplating launching a new fund. The audience for the country analysis is the fund investment committee, which expects a well reasoned and researched presentation that includes a persuasive recommendation for why they should/should not proceed to launch a new fund in the specified country. The memo to the investment committee should be a maximum of 10 double-spaced pages (as with all written assignments, 12 point font with 1" margins), plus appropriate appendices with supporting data. The appendices can be in Word, PowerPoint, Excel or any other appropriate format. In addition, during the last two or three class sessions, each study group will make a 15-minute power point presentation that summarizes the group's findings and recommendations. In the same email informing the Instructor and TAs about study group members **due no later than January 21** (see above)**,** each study group must designate **three preferred countries in order of preference.** Guidelines for the structure and content of these country assessments will be distributed during the first class.

Requirements and Grading

Two study group memos (20%)
One individual memo (25%)
Weekly class participation (30%)
Study group term project (25%)

All written assignments must be typed, double-spaced, have 1" margins on all four sides, use 11-point font, and not exceed three pages plus one or two appendices. **Without exception, late assignments will not be graded; each assignment must be submitted at the beginning of class on the assigned date and in two formats: (i) hardcopy and (ii) by email to the TAs.**

Instructor Access

E-mail: leeds@jhu.edu
Office hours: Request by email
Campus mailbox: Wharton Entrepreneurial Programs, Vance Hall (4th floor)
Instructor bio: http://www.wep.wharton.upenn.edu/teaching/faculty/leeds.html
Teaching Assistants: Neha Sahni (Sahni@wharton.upenn.edu) and Duoyi Wang (duoyi@wharton.upenn.edu)

Private Equity Web sites

In addition to the Bulk Pack, students are urged to stay abreast of private equity events by regularly referring to some of the web sites that focus on the core subjects of the course, such as:

www.empea.net (Emerging Markets Private Equity Association)*
www.evcj.com/ (European Venture Capital Journal)
www.privateequityinternational.com (Private Equity International)
www.asiape.com (Asia Private Equity Review)
http://mba.tuck.dartmouth.edu/pecenter/ (Dartmouth Private Equity Center)
www.venturecapitaljournal.net/
www.ventureeconomics.com
www.thedeal.com
www.privateequity.com
www.assetnews.com/products/news/pea.htm

*You are urged to subscribe to the Emerging Markets Private Equity Association's "NewsWatch," a weekly email describing recent PE transactions in emerging markets. Go to left hand menu of EMPEA home page and click on "sign-up for NewsWatch".

Course Schedule

January 15	**Course Overview** **Introduction to Private Equity in Emerging Markets**
January 22	**Private Equity Fundraising** **-An Institutional Investor's Perspective– Yale University Endowment** **-A PE Fund Manger's Perspective -- Gobi Partners II (China)**
January 29	**Due Diligence, Valuation & the Investment Decision:** **-Fulano.com (Brazil)** **- Capital Alliance Private Equity (Nigerian Telecom)**
February 5	**NO CLASS**
February 12	**Financal Restructuring Alternatives: An Entrepreneur's Perspective** **-Jinwoong (Korea)** **Post-Investment Value Creation** **-Hony Capital and China Glass Holdings**
February 19	**Alternative Private Equity Strategies & Country Presentations-Guest** **-Blue River Capital (India)** **-Abraaj Capital (Dubai)**
February 26	**Exit Now or Later? & Country Presentations**

- NCH Capital and Univermag Ukraina (Ukraine)

March 5 **<u>Attracting Private Equity -The Entrepreneur's Challenge; Country Presentations</u>**

- **Adesemi (Tanzania)**
- **Quinta Fresca (Argentina)**

<u>Syllabus</u>

<u>January 15</u>: Introduction to Private Equity in Emerging Markets

Brief overview of course objectives and requirements. Introduction to core subjects covered, including: (i) comparison of the preparation and execution of PE transactions with other financial asset classes; (ii) assessment of the features that distinguish PE as an asset class in developing vs. industrialized countries; (iii) discussion of the rationale for and structure of PE funds; (iv) review of basic tasks performed during the PE cycle, from deal origination through exit; and (v) assessment of PE performance during the past decade.

<u>Readings</u>[4]

1. Apax Partners, "Private Equity in the Public Eye, 2007 Global Private Equity Environment Rankings," 2007.
2. "The State of Emerging Markets Private Equity," <u>EMPEA Quarterly Review (March 2008).</u>
3. George Fenn, Nellie Liang, & Steven Prowse, "The Economics of the Private Equity Market," Federal Reserve Board, Dec. 1995). Available at http://www.federalreserve.gov/pubs/staffstudies/1990-99/ss168.pdf*
4. Khanna, Tarun, and Palepu, Khrishna, "Why Focused Strategies May Be Wrong for Emerging Markets," <u>Harvard Business Review</u> (July-August 1997).*
5. Roger Leeds and Julie Sunderland, Private Equity Investing in Emerging Markets, Journal of Applied Corporate Finance, Fall 2003.
6. Roger Leeds, "Do Labels Matter?" in <u>Private Equity International</u>, April 2006, pp.63-65.*
7. Joshua Lerner & Ann Leamon, "A Note on Private Equity in Developing Countries," (# 9-208-037), HBS Publishing, April 2008.
8. Joshua Lerner, Felda Hardymon & Ann Leamon"A Private Equity Glossary" in <u>Venture Capital and Private Equity: A Casebook (4rd Edition), John Wiley & Sons, 2008</u>.*
9. Fred Wainwright & Colin Blaydon, "Glossary of Terms," Center for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth:* http://mba.tuck.dartmouth.edu/pecenter/resources/glossary.html

<u>Study questions</u>

1. What are the specific characteristics that distinguish private equity from other methods of financing private companies?

[4] **All readings are required <u>unless</u> marked with an asterisk (*).**

2. What are the various phases of the private equity investment cycle? How does the requisite skill set differ from other finance jobs (e.g. investment banking)?
3. What are the most important features of a well-developed investment climate that are especially important for private equity?
4. What specific factors distinguish private equity as an asset class in developing countries compared to industrialized countries?
5. Why are buyouts much less prevalent in developing countries?

6. Since entrepreneurs and company managers in developing countries rank limited access to investment capital as their single largest obstacle to success, why do most PE investors complain about inadequate deal flow?
7. As an LP investor, what are the key factors for success you would look for in an emerging markets PE fund manager?
8. Why was the performance of most first generation emerging markets PE funds well below investor expectations (i.e. 1995-2003)? What has changed to suggest a turn around is in process, and why?

Assignment

No later than January 21, all study groups should email Professors Leeds and the TAs with (i) the CVs of the five study group members, and (ii) the three country preferences for the study group Term Project (**see detailed explanation above, pp. 2 & 3)**.

January 22: An Institutional Investor's Perspective on Private Equity
- Yale University Endowment
-Creating and Executing a Fundraising Strategy: Gobi Partners II (China)

Reading

1. Joshua Lerner, "Yale University Investments Office: August 2006"," HBS case #9-807-073 (May 2007).
2. Cristophe Rouvinez, "Top Quartile Persistence in Private Equity," Private Equity International, June 2006, pp. 74-77.*
3. "Benchmarking Performance: Challenges and Approaches for Emerging Markets," Emerging Markets Private Equity Quarterly Review (March 2008).
4. "LPs Continue to View Emerging Markets Favorably," Emerging Markets Private Equity Quarterly Review (June 2008).
5. Felda Hardymon, and Ann Leamon, , "Gobi Partners: Raising Fund II," HBS Case # 9-807-093, January 2007.
6. Joshua Lerner, "A Note on the Private Equity Fundraising Process," HBS Case # 9-201-042, September 2008.*
7. Deloitte & Touche, "Seven Disciplines for Venture Investing in China," (2005).*

Yale University Endowment: Regardless of the country, asset managers must select from a broad spectrum of investment choices representing a range of risk factors. In this case, David Swensen, Chief Investment Officer at Yale University, reviews the investment strategy for the University's $18 billion endowment, which places an unusually heavy emphasis on PE and other alternative asset classes. Although Swensen and his team have experienced a high level of PE investment success over the years, changing market conditions have triggered a reassessment of the investment criteria, including the weighting of PE in the portfolio.

Study questions

1. What factors distinguish the top quartile PE fund performers from all the rest?
2. In a relatively conservative investment portfolio such as a university endowment, what are the rationales for a significant asset allocation to private equity?
3. How has the Yale Investment Office selected, compensated and controlled private equity fund managers? What are the pros and cons of this approach?
4. What are the key factors for the investment success of Swensen and his team?
5. How do you explain the performance differences between the Investment Office's international and domestic private equity investments?
6. Do you agree/disagree with Swensen's private equity investment strategy, and why?
7. In recent years what changes are occurring in the domestic and international private equity industry, and how might those changes influence Yale's future investment strategy?
8. If you were on Swensen's team, what recommendations would you have made to your boss about future allocations between domestic, international and emerging markets private equity, and what would be the analytical justifications for your recommendations?

Gobi Partners II Introduction: After two very difficult years of fund raising, in November 2005, Gobi Partners I finally closed with $51.75 million of committed capital. One year later, in December 2006, the Fund was almost fully invested, a second office had been opened in Beijing, the partners were generating good deal flow in their preferred sector (early stage digital media), and the Gobi brand name well established in China. Now the partners, as well as many of their original LP investors, want to build on this early momentum by returning to the market to raise capital for Gobi II. But they are uncertain about their prospects for success with a second fund raising until Gobi I had completed some exits.

Study Questions:

1. How has the China VC market changed since Gobi raised its first fund that will positively and negatively influence your willingness as an LPs to commit capital to Gobi II?
2. In addition to the lack of exits, what other issues should the Gobi partners anticipate if they proceed with fund raising for Gobi II?
3. Would you advise the Gobi partners to launch their Gobi II fund raising immediately, or wait? Why/why not?

Written Assignment

1. Study Groups 1-3: Write a memo to Mr. Swensen responding to question 8 above.
2. Study Groups 4-6: Write a memo to Swenson that responds to question 2 above, making the case in favor/against investing in emerging markets PE, using specific examples and data to support your point of view.

3. **3.** Individual 10-12: As the alternative assets portfolio manager for a large pension fund seeking investment opportunities in Asia, make the case to your investment committee for/against an investment in Gobi.

January 29: **Due Diligence, Valuation & the Investment Decision:**
-Fulano.com (Brazil)
- Capital Alliance Private Equity (Nigerian Telecom)

Reading:

1. Chad Williams and William Coughlin, "Capital Alliance Private Equity: Creating A Private Equity Leader in Nigeria," HBS case # 9-800-104, November 2004.
2. "Africa: PE Warming-Up," Emerging Markets Private Equity Quarterly Review (September 2007).
3. Fred Wainright, Colin Blaydon & Hal Nelson, "Note on Due Diligence in Venture Capital," Center for Private Equity and Entrepreneurship, Tuck School of Business at Dartmouth, Case #5-0014, August 2003. (Very useful reference for next five cases.) http://mba.tuck.dartmouth.edu/pecenter/research/pdfs/due_diligence.pdf
4. Michael Roberts & Lauren Barley, "How Venture Capitalists Evaluate Potential Venture Opportunities," HBS Case # 9-805-019, December 2004.
5. Roger Leeds, "Financing Small Enterprises in Developing Countries: Learning from Experience," excerpt from Financing Small Enterprises in Developing Nations: Learning from Experience (Transnational Publishers, 2003).
6. ______, "Brazil—Weighing Risks and Opportunities in the New Economy: Fulano.com.br," op.cit.

Capital Alliance: The year is 1998. Capital Alliance Private Equity, Nigeria's first major private equity fund, is assessing its first potential investment in 1998, and the fund's founders already are encountering a formidable array of obstacles. Their target is a small telecommunications firm that has been operating profitably in Nigeria for four years and is profitable. Initial due diligence by the Capital Alliance team had been encouraging, but now the latest earnings report is below expectations, which has renewed concerns about transparency and financial record keeping within the company. Although the deal team continues to be attracted to the target company, they know that a lot is riding on their decision with this, the very first deal to be brought before their investment committee. Based on the new revelations, they need to conduct additional due diligence before deciding whether to proceed, and if so, on what terms.

Study questions

1. As a knowledgeable private equity investor with a commitment to promoting investment in sub- Saharan Africa, what is your assessment of the strengths and weaknesses of the Nigerian private equity climate in 1998?
2. One advisor to the founders of Capital Alliance worried that maybe they were "too patriotic and visionary rather than hands-on and profit driven." If this assessment has merit, what would you recommend to ensure that the fund manager's priorities are geared to ensuring successful performance?

3. From a private equity perspective, what is your assessment of the strengths and weaknesses of GS Telecom as an investment opportunity? What are the key value drivers for the company and how well positioned is the company to capitalize on the telecom opportunity in Nigeria?
4. Given the significant differences about valuation between the two parties, what value would you attach to the company if you were leading the Capital Alliance deal team? How would you justify your valuation to the Investment Committee?
5. If Capital Alliance proceeds with the investment in GS Telecom, how can they work effectively with company management to mitigate some of the most significant risks? How can they ensure that they will have sufficient leverage within the company post-investment?
6. Are you comfortable with Capital Alliance's assessment of their exit strategy if they proceed with the deal?
7. Would you recommend they enter negotiations with GS Telecom's owners, and if so, what are your most important conditions for closing the deal? Or, if you believe the deal involves too great a risk for Capital Alliance's first deal, what justification would you present to the Investment Committee?
8. If you were a U.S. or European pension fund manager with a mandate to allocate a small portion of your assets to emerging markets private equity, would you invest in Capital Alliance? Why/why not?

Fulano.com: At the height of the Internet boom, just as Andre Burger is launching a new Brazilian private equity fund specializing in the technology sector, he is approached with a seemingly attractive opportunity to finance the fund's first investment. His preliminary due diligence indicates that the target company has the potential for exceptional growth and profitability. But the company's 26 year-old founder has no management experience, and like most new dot.coms, the company has no track record, no revenue stream and no historical operating and financial data that could serve as a reasonable basis for making projections and arriving at a defensible valuation. Burger has concluded that the company is likely to be either a huge success, or a complete disaster, and his Investment Committee is waiting for a recommendation.

<u>Study questions</u>

1. Given the optimism in Brazil about the explosive growth expected in the Internet sector, coupled with the strong track record of the RSTec team, why was the fund <u>not</u> able to attract more private investors? Could RSTec management have done more to attract private capital? From RSTec's perspective, does it matter?
2. If you were Andre Burger, would you have assessed the fundamental strengths and weaknesses of fulano.com in the same way? If not, <u>specifically</u> how does your assessment differ?
3. How would you justify to investment committee members an investment in a company with no track record that is headed by an individual with the experience of Rogerio Silverberg? How might you mitigate the risks of investing in a company with inexperienced management?
4. Do you agree with the operating and financial assumptions underlying the fulano.com financial model? What changes to the model would you recommend?

5. Would you have been as willing as the RSTec management team to increase the size of our investment without receiving a larger equity stake? Why/why not?
6. Has Andre fully anticipated all of the questions that are likely to come from his investment committee?
7. If you were on the RSTec investment committee, would you approve the proposed investment in fulano.com? Why/why not?

Written Assignment

1. Study Group10-12: As the Capital Alliance Investment Officer in charge of the GS Telecom deal, write a memo to your Investment Committee that summarizes the proposed deal structure, the strengths, risks and key issues that need to be addressed, including the significant difference between your valuation and the company's, and your recommendation on how to proceed with negotiations.
2. Study Group7-9: Make the case to the investment committee that the fund should approve the proposed investment in fulano.com.br.
3. Individual-SGs 4-5: Andre Burger has asked you to prepare a memo that summarizes the strengths and weaknesses of the proposed investment in Fulano, including your specific views of the proposed valuation, and your recommendation.

February 5: NO CLASS

February 12: **Assessing Financal Restructuring Alternatives: An Entrepreneur's Perspective**
-Jinwoong (Korea)
Post-Investment Value Creation
-Hony Capital and China Glass Holdings

Reading

1. Walter Kuemmerle, James Lee & Bokeun Jin, "Jinwoong: Financing an Entrepreneurial Firm in the Wake of the Korean Financial Crisis," HBS Case # 0-903-059, April 2004.
2. Roger Leeds and Lily Fang, "Hony Capital and China Glass Holdings" (January 2008).
3. "Private Equity in China Comes of Age," Business Week, July 24, 2007.

Financial restructuring of Jinwoong: T.P. Lee is the founder and CEO of Jinwoong, a 19-year-old entrepreneurial Korean company that has grown to become the world's largest manufacturer of camping tents with 6000 employees and $180 million of revenues. In the aftermath of the damaging 1997 Asian financial crisis, Lee is contending with a number of unanticipated new challenges. Largely due to fallout from the crisis, he has concluded that he must seek outside financing in order for Jinwoong to expand and meet its operating targets. Currently he is trying to decide among offers from two private equity funds, and a third financing option through a government-sponsored corporate restructuring fund. Lee must assess all three financing options in the context of the best fit with the company's long-term strategy. The private equity investors, on the other hand, must determine whether an investment in Jinwoong makes sense and, if so, determine an acceptable value, terms and conditions.

Study questions:

1. What key factors explain Jinwoong's success prior to the Asian financial crisis? Why did Jinwoong's financial structure make it particularly vulnerable in the aftermath of the crisis?
2. How much capital doe Mr. Lee need and why is he seeking outside funding? Do you agree that he needs it?
3. If you were advising Lee, what value should he place on the purchase of 100% of the company? What percentage of Jinwoong should he sell, and what should be his asking price?
4. As Mr. Lee's financial advisor, how would you present the pros and cons of each of the three financing options? Which of the three financing alternatives would you recommend, and why?
5. Assuming that Warburg Pincus is interested in purchasing all of the equity not owned by Mr. Lee (sse Exhibits 11 A & B), as a member of the WP deal team:
    a. How would you assess the strengths and weaknesses of Jinwoong as a prospective investment?
    b. Based on your analysis, how much capital does Jinwoong need to restore growth and competitiveness?
    c. Based on a DCF analysis, what is your estimate of the firm's net present value? What is the equity value?
    d. Would you recommend that WP make an investment in Jinwoong, and if so, what kind of deal would you offer Lee? If not, why not?

Hony Capital and China Glass Holdings: Hony Capital, one of the first Chinese private equity funds founded and staffed by local personnel and investors, was looking for its first deals in 2003. Jiangsu Glass Company (later renamed China Glass) was a mid-size flat glass manufacturer about to be privatized, and thus would be forced to fend for itself in a rapidly growing, increasingly competitive Chinese market. The case describes the 100% buyout of China Glass by Hony Capital in 2004 and the subsequent restructuring of the newly privatized company. The Hony deal team, in close collaboration with China Glass management, immediately set out to: restructure the company, successfully complete an IPO on the Hong Kong Stock Exchange, execute an ambitious acquisition strategy, and attract a world class strategic partner. Within five years of the original transaction, China Glass had risen to become a market leader in its sector and Hony was poised to exit with an enviable financial return on its original investment.

Study Questions:

1. Are there features of Hony Capital that distinguish it from other PE funds you know? Do these features add or detract from Hony's competitiveness in the Chinese PE market?

2. From Hony's perspective, what were the strengths and weaknesses of China Glass as a target investment?

3. What were the key components of the post-investment strategy designed to build value and lay the groundwork for a profitable exit? Would you have done anything differently if you were in John Zhao's shoes?

4. What are the similarities and differences between this transaction and typical buyouts in the West? If you were a Western PE fund manager, what lessons would you derive from the China Glass transaction?

5. If you were a Western LP, how would you assess the pros and cons of investing in Hony compared to Western buyout funds?

Written Assignment:

1. Study group (?): As Mr. Lee's financial advisor, make a presentation to him summarizing your evaluation of the three financing options, and recommend how he should proceed.
2. Study Group (?)As an Associate at a Western buyout fund that is assessing whether to enter the Chinese buyout market in early 2008, write a memo to your boss that (i) addresses study question 4 above, (ii) highlights the risks, and (iii) includes a go/no go recommendation.

3. Individual (?): As an Associate on the Warburg Pincus deal team, write a memorandum to your Managing Director that addresses question 5 a-d above.

February 19: Comparing Alternative Private Equity Fund Strategies & Country Presentations
-Blue River Capital (India) &
-Abraaj Capital (Dubai)

Blue River & Abraaj: Two very different private equity funds have each reached a crossroads that requires senior management to reach a decision about how to sustain their fund's growth and competitiveness amidst a rapidly changing competitive landscape. The two founding partners of Blue River Capital, a $140 million Indian private equity fund that is focused on investments in middle market companies, are contemplating how to strategically reposition the fund as they contemplate raising a second fund in 2007. They believe, "we've got to change gears" in order to differentiate Blue River from other top tier funds at a time when the booming Indian private equity market is becoming increasingly competitive. They are keen to capitalize on the favorable fund raising environment, but first they have to reach agreement on the most effective profile for the new fund.

Abraaj Capital, one of the largest, most successful private equity funds operating in the Middle East, is grappling with a similar set of strategic issues. With 6 separate funds, capital under management totaling more than $5 billion, and a diversified portfolio located in various countries in the region, senior management is concerned about how to sustain its leadership position at a time when the global and regional PE market was undergoing rapid change. As Abraaj founder and CEO Arif Naqvi prepares to meet with McKinsey in early 2008 to map out a new strategy, he is considering a range of strategic alternative.

Reading

1. Krishna Palepu, et. al., "Blue River Capital," HBS Case # 9-708-448, October 2007.
2. Josh Lerner and Ant Bozkaya, "Abraaj Capital," HBS Case # 9-809-008, July 2008.

Study Questions:

1. What are the key factors that have driven the success of each fund so far? How are they similar and different?
2. Although very different, the leadership of both Abraaj and Blue River strongly believe they must change their strategies in order to be competitive. Do you agree/disagree that they cannot continue to be successful with "business as usual?"
3. Could Abraaj be successful if it shifted towards investments in middle market companies (i.e. like Blue River)? Could Blue River be successful as a buyout fund (like Abraaj)?
4. If you were Arif Naqvi, which of the three strategic options under consideration would you advocate, and why? Has he missed some viable alternatives?
5. If you were an advisor to the Blue River Managing Directors, what recommendations would you offer as it begins raising its second fund ensure?
6. As the alternative assets portfolio manager for a Western LP considering an emerging markets PE investment, what would be your assessment of the comparative strengths and weaknesses of the MENASA region and India? If you could only invest in one of the two funds, which would you choose, and why?

Written Assignment:

1. Study Groups ?: As an Abraaj advisor, prepare a memo to Arif Naqvi (3 pages maximum) responding to study question 4 above (include a brief assessment of the three options, plus any others you believe should be considered, and justify your recommendation).
2. Study groups ?: Based on your assessment of the Indian PE market in 2007, prepare a memo to the 2 founding partners (3 pages maximum) with your recommendations on how/why they should alter their strategy, if at all, as they contemplate raising a second fund.

February 26: Exit: Now or Later? & Country Presentations
-NCH Capital and Univermag Ukraina (Ukraine):

NCH Capital and Univermag Ukraina (Ukraine): NCH Capital is one of the largest, most well-established and successful private equity funds operating in the republics of the former Soviet Union and Eastern Europe. In July 2006 the NCH President is trying to decide (i) whether the time is right to exit Univermag Ukraina, a large, diversified retail shopping complex located in Ukraine, that has been performing well for a number of years, and (ii) if so, the optimal exit strategy (e.g. competitive tender or direct negotiations with select strategic investors).

Reading:

1. Joshua Lerner & Didiuk, "NCHCapital and Univermag Ukraina," HBS Case # 9-807-143, March 2007.

Study questions:

1. Compared to other emerging market countries studied in this course, what are the strengths and weaknesses of Ukraine from a PE investor's perspective? What are the most formidable country-specific risks, and how can they be mitigated?
2. How would you compare and contrast the investment strategy pursued by NCH for more than a decade with other PE funds studied in the course? If you had been the President of NCH, would you have done anything differently?
3. What were the pros and cons for NCH (New Century Capital Partners) of accepting financing from OPIC? More generally, what is your assessment of this U.S. government financing program as a development assistance mechanism?
4. What key variables would most influence your assessment and decision about whether to divest of Univermag Ukraina now or later?
5. Why is an IPO not one of the exit options being considered?
6. What exit strategy would you recommend, and why?

<u>Written Assignment:</u>

1. Study Groups ?: As an Associate at NCH in 2007, write a memo to George Rohr that responds to study question 6.
2. Individual ?: As an Associate at NCH in 2007, write a memo to George Rohr that responds to study question 6.

March 5: Entrepreneur's Perspective on Attracting PE Investors & country presentations:

- **i. Quinta Fresca (Argentina)**
- **ii. Adesemi (Tanzania)**

<u>Reading</u>

1. Roger Leeds, "Financing SMEs in Argentina," in <u>Financing Small Enterprises in Developing Countries</u>, Transnational Publishers, 2003.
2. Monique Maddy, "Dream Deferred, The Story of a High-Tech Entrepreneur in a Low-Tech World," <u>Harvard Business Review</u> (May-June 2000), pp. 145-152.

<u>Quinta Fresca:</u> For more than a year Felipe Ayllon had been working to raise the capital needed to accelerate the expansion of Quinta Fresca, a highly successful fresh produce distribution company he had started in La Plata, Argentina. No matter how hard he worked, no matter how successful his company, no matter how many prospective funders considered investing in his firm, events seemed to be conspiring against him. Now, in July 2001, as he gathered his senior management team to assess the company's options, Felipe knew that time was short, and the company's future was at stake. If he was unable to raise capital, the long awaited expansion must be curtailed, and he would have to reassess his strategy for the company that had been his singular obsession since its founding eleven years earlier.

<u>Adesemi:</u> In the early 1990s Monique Maddy, recently graduated from Harvard Business School, wrote a business plan for the launch of a start-up telecommunications company in Tanzania called Adesemi, and then set off to raise money for her new venture. During the ensuing five years, the company and its founder enjoyed a few notable successes, amidst a string of frustrations and failures that are characteristic of countless entrepreneurial start-up in developing countries. Most notably, as a result of Ms. Maddy's endless quest for the capital required to sustain and grow her new business, she succeeded in raising about $15 million from a broad range of sources, including development finance institutions, private investors, the local government, strategic investors, and private equity funds. Nevertheless, her venture failed. "Losing Adesemi," she said, "was something of a public death." Thinking about the lessons learned from her experience, Ms. Maddy now wonders what she would do differently if she was to embark on another start-up in Africa.

Study questions

1. In your opinion, what are the key characteristics of a successful entrepreneur? How well do Felipe Ayllon and Monique Maddy fit your profile?
2. As a PE investor, how would you compare and contrast Mr. Ayllon and Ms. Maddy as the CEO of their respective companies? How effectively could you work with each of them to build company value, and why?
3. Looking back at the performance of each company, what do you see as the strengths and weaknesses of their respective business models?
4. What is your assessment of the respective fund raising strategies of Felipe Ayllon and Monique Maddy? What would you have done differently, and why?
5. If you had been advising Felipe in 2000 on his fund raising strategy, how would you have valued Quinta Fresca? What percentage of the company would you have advised him to be willing to sell to outside investors?
6. Could Felipe have anticipated the macroeconomic deterioration? If so, how, and what might he have done to adjust his fund raising strategy?
7. What are the pros and cons of the four options being weighed by the Quinta Fresca management team in July 2001? Are there other alternatives they should have considered? What decision would you have advised Felipe to make, and why?
8. Although Adesemi had solid business fundamentals and was competitive in its market, Ms. Maddy claimed that performance was adversely affected by a range of non-business factors that are especially prevalent in developing countries, such as "cultural habits and sensitivities," and unreliable local partners. As a private equity investor, how can these risks be identified and mitigated prior to making a capital commitment?
9. Ms. Maddy advises entrepreneurs in developing countries to "steer clear of do-good investors" because "often they are terrified of risk and deeply enmeshed in bureaucracy." Do you agree/disagree, and why?
10. Was Adesmi doomed to fail? What, if anything, would you have done differently?

Written Assignment

1. Study Group1-3: As a private equity investor, select 1of the 2 companies and write a memo to your investment committee making the case for why your fund should /should not invest, and why.
2. Individual-SGs 6-7: Same as above.

All Study Group country memos due.