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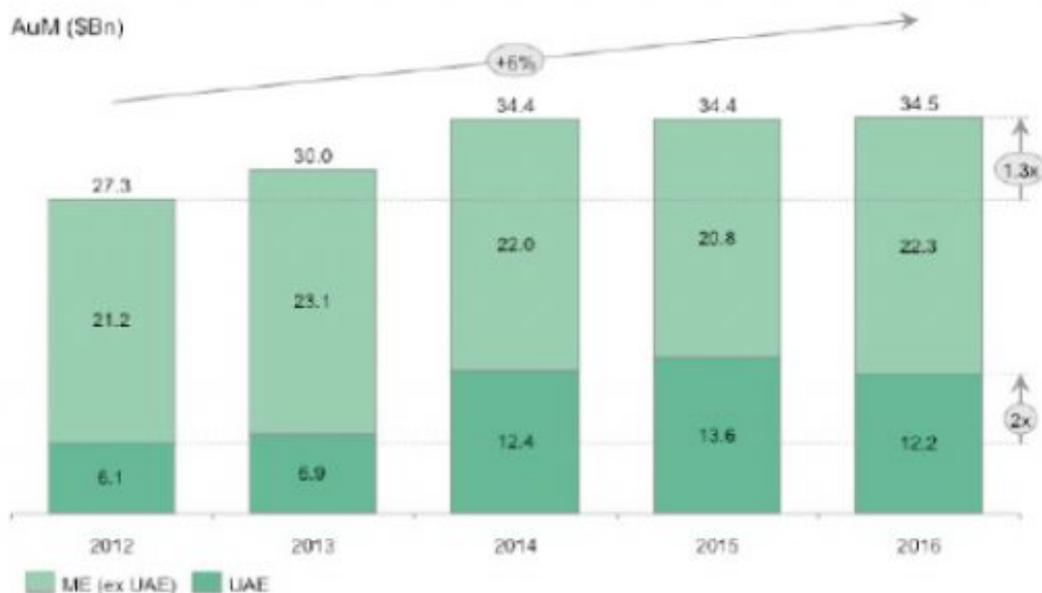


Private equity firms booming, yet no time to be complacent

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### AuM for Private Equity Funds in Middle East (2012-2016)



Source: Preqin, BCG analysis  
Private Equity AuM in UAE 2012-17: AEC 01.pptx

Private Equity (PE) firms are benefiting from nearly ideal market conditions right now, yet the tide is changing, and they should take this opportunity to think about their competitive edge and differentiation, a new article by The Boston Consulting Group titled “Capitalizing on the New Golden Age in Private Equity” revealed.

Worldwide, PE firms recorded \$2.49 trillion in assets at the end of 2016, including nearly \$1 trillion in un-invested capital. As returns for the overall industry continue to beat other asset classes, particularly hedge funds, capital continues to pour into PE firms, and new competitors are entering the field. Not only are firms struggling to differentiate themselves in this new environment, but new money is bidding up deal multiples and putting future returns into question. Simultaneously, some investors continue to challenge the firms’ traditional fee structure: 2% of Assets under Management (AuM) and 20% of gains. Furthermore, as the economic clout of the PE industry continues to grow, firms will find themselves under increased scrutiny by the media and, potentially, governments.

AuM for PE funds in the Middle East has been growing at 6% over the last five years; UAE PE companies in specific with \$12 billion in AuM, covers approximately 30% of AuM in the Middle East and showing the fastest growth rate in the region. This represents an opportunity for international investors who are looking for exposure to the region, and to capitalize on its favorable circumstances such as: growing young population, privatization of assets, performance improvement imperatives and increasing emphasis on the Small and Medium Sized Enterprise (SME) agendas.

On the other hand, dry powder in the Middle East has increased at a higher rate than AuM by 11%, which indicates potential issues in deploying capital. UAE PE funds with a total of \$3.4 billion in dry powder are particularly challenged when compared to the rest of the region.

“The current conditions are favorable in so many ways, but there are also a number of challenges looming ahead,” sai Markus Massi, Partner and Managing Director of BCG Middle East. “We think top managers will use this as an opportunity—or even an imperative—to sharpen their thinking, improve their discipline, and be bold in several dimensions of their businesses. Specifically, local PE funds in the Middle East need to focus their efforts on enhancing their business models to cater for local investors’ appetite for international exposure”

Three imperatives PE firms should take:

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- Turn their operational playbooks inward. Many firms hold their portfolio companies to a much higher operational standard than they hold themselves. In an increasingly crowded market, this approach no longer works. Instead, firms need to improve their own internal operations and processes, primarily through digital technology. “Some firms are busy creating new roles, such as chief digital officers, and are far more proactive about gauging the impact of digital on their portfolio companies,” said Michael Brigl, a BCG partner and coauthor of the report.
- Develop a true talent strategy. Firms need to bring in the right people, with a wider range of experience and expertise, particularly in digital. This is especially important given the way that some small firms have posted meteoric growth over the past few years. Succession planning and diversity are increasingly on the minds of investors and need to be at the top of general partners’ agendas
- Upgrade their approach to value creation. “Rather than taking action in just one or two areas of their portfolio companies, firms need to leave no stone unturned. This includes adopting new strategies that emphasize digital, improving pricing, creating a lean activist project management office, and accelerating merger integration,” added Ihab Khalil, a BCG partner working with leading SWF and PE companies in the Middle East.

The current golden age will not last forever, however smart PE firms should be taking the necessary steps today to prepare for the challenges ahead.

22/03/2017

Saudi Gazette

Industry

[Private equity firms,Boston Consulting Group,industry.](#)



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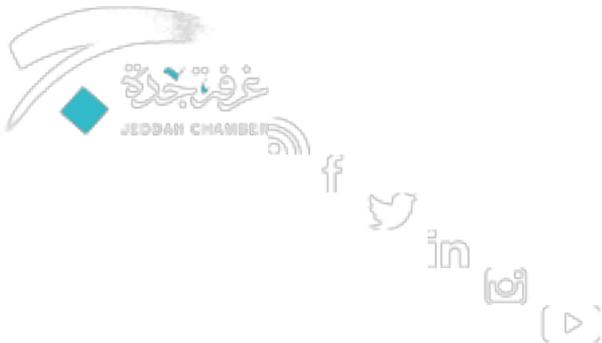
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