



İş Private Equity forecasts growth

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Private equity funds investing in Turkey will continue to grow and yield strong returns in 2008, Murat Özgen, chief executive officer of İş Private Equity told the Turkish Daily News last week. İş Private Equity is looking to make two or three new investments and to exit at least one company by the end of 2008.

REETA PAAKKINEN
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Private equity funds investing in Turkish firms will continue to grow and yield strong returns in 2008, Murat Özgen, chief executive officer of İş Private Equity told the Turkish Daily News last week.

"The current year will be another bullish year for private equity in Turkey and will follow the footsteps of 2006 and 2007," Özgen said. "We will see couple of mega funds entering the market and doing buy-outs. For example, Koç has announced selling its supermarket chain [Migros] to BC Partners for \$1.67 billion. At the same time, small and medium cap funds will be focusing on growth companies. We will see an inflow of approximately \$2bn in emerging transactions this year," he added.

Fierce competition

The main issues facing private equity investors in Turkey this year will be high valuations and a potential unwillingness of banks to grant loans, whose terms might not be too favourable in the end, Özgen noted.

"Entry valuations in large and medium cap transactions will be high this year because of the fierce competition between funds. But valuations will be high only for Turkish standards, not international," said Özgen.

"To make returns lucrative there is need for leverage, which may not be as good as it was in the past two years. This year Turkish banks may also be more reluctant to give loans or the terms might not be favourable," he added.

On the other hand there is still notable growth potential because of the growth of Turkish economy, as well as the opportunities to consolidate sectors as a result of continuing spin-offs and non-core assets, and make companies more efficient and profitable, said Özgen.

Emerging market

Private equity funds are currently getting almost venture capital returns in Turkey because the market is still an emerging one. International funds have been looking at 2.5-3 money multiple, noted Özgen.

"The history of private equity in Turkey consists of only 85 entries, showing how emerging market this still is. We have more than two million small and medium sized enterprises (SMEs), which on its part shows how fragmented the industries are. Private equity funds will be able to find good deals and good returns in Turkey.

Competition will get fiercer, especially for mid-large cap transactions, but there is still a lot of room in the market. Turkey will be a strong target for private equity for the next five years."

Özgen also noted the current volatility in global markets is unlikely to affect private equity investments in Turkey. "Turkish economy stood strong throughout 2007 and is likely to do the same this year. Furthermore, private equity investments always have a 3-5 year time span, so volatility during a shorter period of time than that rarely impacts the overall returns."

New investments on the horizon

İş Private Equity is looking to make two or three new investments by the end of 2008, said Özgen.

"This year we are planning to exit at least one company and make at least two or three new investments. We are hoping to close these deals by the end of 2008," Özgen said.

İş Private Equity, which has funds totalling \$100 million under its management has so far has done ten investments, two of which it has exited. The fund adopts a generalist and opportunistic investment approach. Its portfolio consists of firms in technology, IT, retail, fair exhibition, services, construction materials, and health sectors.

"We will continue to look from an opportunistic investment perspective, with an aim to diversify our existing portfolio and a focus on some sectors including retail, services, energy, education, branded food goods and tourism," said Özgen.