

Experiences of IT Ventures Group in Private Equity & SME's

**“Highlights on Entrepreneurship & Innovation Issues”
SME's Policy Conference – Ministry of Finance**

*Presentation By:
Dr. Basel Hussein Roshdy
Chief Investment Officer & BOD Member – ITV*

15 January 2008

Table of Contents

- Purpose and Objectives of the Presentation
- Who We Are – Our Group Profile, The Team, Key Strengths
- Why Private Equity & PE Investments
- Target Investors in PE Funds
- Contribution of ITV to its SME's Investees
- ITV's Experiences and Practice with SME's
- Our (& PE Funds) Approach
- Investment Philosophy of PE Funds
- PE Funds Investment Criteria & Investment Process
- Pre-requisites for SME's Investment Decisions
- SME's Concerns & Risk Factors
- ITV's Views on Innovation & Entrepreneurship

Purpose & Objectives of the Presentation

This Presentation demonstrates to the investment and SME's business community the following aspects:

1. A profile of an existing private equity group that has vast experiences in the local and outside markets for many years, as related to private equity investments including SME's direct equity investments.
2. ITV's experiences with SME's investments & lessons learned from practice.
3. Highlights of PE Funds philosophy, criteria, process, decision-making, and issues when selecting and making SME's investments.
4. ITV's views on investing in SME's as well as innovation and entrepreneurship issues for consideration, especially the lessons learned from reality.

Who We Are – Our Group Profile

- An established fund management group and private-equity house that has a track record of 8 years in Egypt and abroad.
- We have developed the first and largest technology private-equity fund in the MENA region (IT Investments Company – www.it-investment.com), including institutional investors, banks, and investment funds from Egypt, Arab World & abroad.
- Managing a number of private-equity funds with assets under management exceeding committed capital of >US\$ 200 million.
- Focusing on developing specific funds with leading players starting with Technology (ICT) and expanding to Knowledge/Education and Real-estate sectors lately.
- We sourced, screened, and analyzed more than 1,200 opportunities over the past 8 years with a rich pipeline of investment opportunities in various related sub-sectors.

The Investment & Management Teams

- Our team specializes in portfolio management, investment banking, corporate finance, business development and project management services.
- Our management team has access to competitive financing arrangements with strategic partners in the MENA and South Mediterranean regions.
- We work closely with competent advisors and world-class corporations in investments and technology.
- We established a solid network of governmental, local, regional, and international relationships and alliances through deal sourcing, generation, and promotion of projects.
- We have dealt with, analyzed, and invested in many SME's in the ICT sectors in Egypt and abroad.
- We developed relationships with many developers and entrepreneurs in Egypt ICT sectors, with different products.

Key Strengths

- Local specialists with a global experience and awareness.
- Good financial performance over the last few years in profitability, cash flow, dividend distribution, investment portfolio growth, auditing compliance, & financial controlling.
- Ability to source, structure, negotiate and close deals successfully, many of which are SME companies.
- Existing investment portfolio generating value through dividends and capital appreciation.
- Strong base and presence in Luxembourg – a highly reputable European financial center and investment funds jurisdiction with reputable advisors and service providers.
- Solid corporate governance and compliance.

Why Private Equity & PE Investments?

- Offers a compromise between the two extremes of direct investments and indirect investments in listed securities.
- The trade-off between liquidity, control, volatility and correlation is often optimized through such unlisted vehicles.
- Less volatile than indirect investments in listed securities as they are not subject to short-term changes & fluctuations.
- High institutional investors' influence during the set-up phase and during the life of the vehicle.
- The investor gains exposure to the specific market management by being a specialist in a cost efficient and diversified manner.
- Ability of investors to direct, influence, & add value (i.e. being active investor) to investee companies, especially SME's.

Target Investors in PE Funds

- Limited number of sophisticated, rational, and well-informed investors who understand the investment opportunities (SME's) & the business strategy, including:
 - Private equity investors and family offices
 - Public interest investors
 - Banks and pension funds
 - Strategic regional investors
 - High net worth individuals introduced through placement agents
 - Industrial or trade investors
 - Government institutions and the like

Contribution of ITV to its SME's Investees

- Structuring and incorporating companies
- Assisting in preparing and updating the business plans
- Assisting in financial planning and budgeting
- Assisting in financial controlling and reporting
- Assisting in organizing & conducting proper governance & compliance (board meetings, shareholders meetings, company's resolutions, audited financial statements, employment contracts, taxes, insurance, etc.)
- Introducing partnerships and alliances to enhance operations
- Assisting in providing advice concerning marketing, sales, and value-added media and promotion
- Conducting periodical valuations and implementing value creation strategies
- Undertaking restructuring and rounds of capital raising and debt
- Preparation and implementation of exit or disposal

ITV's Experiences & Practice with SME's

- Most ICT companies are considered SME's (in terms of size, capital, employees, offerings, resources, etc.), except large GSM operators or Telecom Incumbents (e.g. Telecom Egypt).
- IT Investments Fund (managed by ITV) has made various investments in ICT SME's inside and outside Egypt.
- IT Investments has contributed equity capital against various ownership stakes, together with management teams and/or other financial / technical investors (for risk and value sharing).
- ITV has acted proactively with such investees, and has provided support, strategic advice, and financial planning.
- SME's deal flow and opportunities have passed through rigorous and systematic approach in terms of evaluation criteria, business plans, technical merits, commercial marketability, investment decision-making and post-investment monitoring and restructuring till exiting.

ITV's Experiences & Practice with SME's

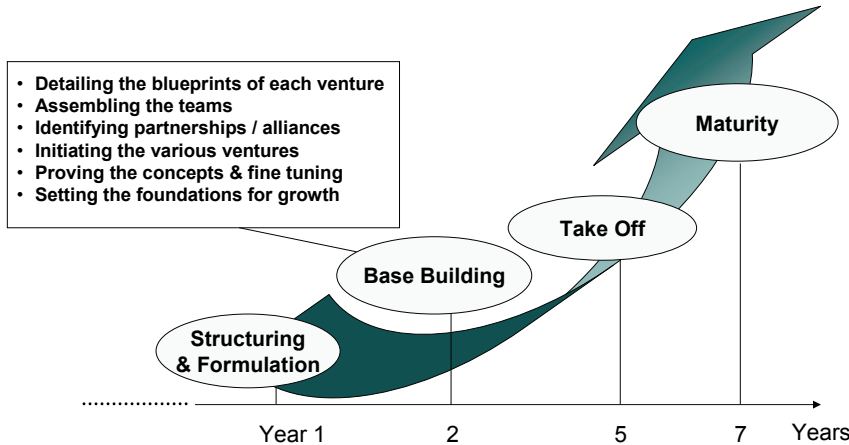
- Many SME's have passed through the evolution and phasing in their business activities and growth stages and have faced various risk factors and challenges from inception to maturity.
- Many SME's in due course have needed additional capital, value-added marketing and business development, re-confirmed management commitments, revisits of offerings and services, and heavy attention to governance and compliance.
- ITI/ITV Group have not favored the incubators' model which is more of very early-stage VC funds or R&D spending, but rather preferred investments with others in proven concepts and capitalized business-streams SME companies (not just dependent on one product or platform with one or few officers).
- ITV has realized some good exits and dividends from a number of SME's, while others have undergone into either restructuring or liquidation after all possible restructuring efforts.

ITV's Experiences & Practice with SME's

- It is really true that technical competence and entrepreneurship have added value and caused capital appreciation (proven by actual multiple exits in innovative-products companies) in some investments within ITI/ITV portfolio.
- But, on the other hand, lack of discipline and proper business planning and governance, and weak financial reporting have caused failures and value reduction for investors.
- Although technical innovation and entrepreneurship are important, however, PE Funds (including ITV) prefer to invest in sustainable, growing, and well-structured and staffed businesses to avoid or reduce the high-risk grade of early-stage start-ups.
- Traditional or pure PE Funds are searching now more for mezzanine or growth-stage investments to manage their portfolio risks, facilitate exit strategies, and reduce the time till value realization at attractive returns.

Our (& PE Funds) Approach

The Strategy and Objectives shall be achieved via a phased approach



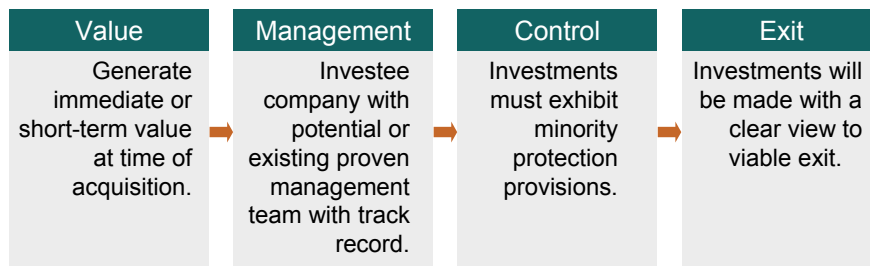
Investment Philosophy of PE Funds

- Private Equity Funds mainly invest direct equity through:
 - Acquisitions of entities with promising outlook, allowing for faster reach to the market.
 - Startups where no existing entities provide the required capability or are viable investments.
 - Joint Ventures with key content / delivery providers; and with credible value-added local players in various countries to support geographical reach.
- All private-equity funds' investments should exhibit control or at least exert significant influence through minority voting rights, contractual agreements and board representations.
- Private-equity funds may also invest in sector-specific or general companies' listed securities in the stock markets.

What is our (& PE Funds) Investment Criteria?

- Potential or Existing Market Demand
- Products / Services Offerings
- Technology / Technical Set-up
- Management Commitment
- Management Capacity and Skills
- Expected Attractive / Decent Financial Returns
- Clear Exit Strategy and Mechanism
- Clear, Rational and Justifiable Business Plan

Investment Criteria of PE Funds



What is our (& PE Funds) Investment Process?

- Deal flow and deal sourcing
- Deal screening
- Deal analysis and due diligence
- Deal negotiation and structuring
- Deal implementation
- Deal monitoring and follow-up
- Portfolio management and optimal mix
- Exit management and value creation for shareholders



Pre-requisites for SME's Investment Decisions

- Proven and tested concept / product / technical platform / service delivery platform
- Qualified business plan with clearly identified resources
- Expected target returns by the SME company according to the Investor's criteria
- Committed and experienced management, with solid track record and management capacity and organizational skills
- Appropriate deal structure in terms of equity participation, ownership, exposure size, and involvement and protection terms
- Participation of other investors and preferably management executives for risk sharing and maximizing value

SME's Concerns & Risk Factors

- Limited capital in many cases
- Lack of governance, compliance, financial controlling, and reporting
- Limited access to equity and bank debts and/or credit facilities
- Competition against large corporations that possess wider resources
- Difficulty of exit, and no liquid or public market, till lately the Nilex (SME's Stock Exchange)
- Improper or insufficient organization structure
- Authority limits by decision-makers & managers
- Segregated decision-making and inter-company relations

ITV's Views on Innovation & Entrepreneurship

- ITV Group acts as a pure private equity investor with low-to-medium risk profile.
- ITV does not incubate ideas or start-up initiatives, since we anticipate this as an R&D type and it is the responsibility of incubators' funds and/or government funds.
- ITV does not finance projects or ideas. Investment participation is directly in the form of pure equity (shares) ownerships, together with other investors or participants: either management team, or financial investors, or technical investors.
- Financing innovation and/or entrepreneurship is of very high-risk nature and cannot be justified by traditional private-equity.
- Private-equity funds/investors invest into proven concepts and solid track-record management, with identified business plans, market growth prospects, & clear exit strategies.

ITV's Views on Innovation & Entrepreneurship

1. Requires technical and technological expertise of the developers or entrepreneurs
2. Needs follow-up and testing for proof
3. Needs properly estimated budgeting
4. Needs allocated time frame and limits
5. Requires commercial feasibility and marketability
6. Financing technical innovation and/or entrepreneurship should be adopted by:
 - Grants and donations (local and/or foreign)
 - Soft funds or loans
 - Government and NGO funds
 - Scientific research funds
 - Early-stage start-up VC funds (not traditional PE Funds)
 - Personal initiatives

Thank You