Private Equity Activity,

Growth and Performance Report

Final Report

March 31, 2011

Context

In 2010, world economic growth revived timidly following the financial crisis, marked by a decline in economic activity and growth in both developed and emerging countries. This decline was driven by increased interdependence of national economies on globally liberalized goods and capital flows. At the national level, the decreased demand in developed countries directly impacted certain parts of the industrial sector, as well as tourism and transportation sectors.

In Morocco, economic growth decreased slightly in 2010 from 2008 and 2009, according to the latest growth estimates provided by the High Commissioner for Planning (HCP). Gross domestic product increased 3.3% in 2010, versus 4.9% in 2009 and 5.6% in 2008. Meanwhile, the main balance of payments indicators improved. There was an increase in primary sector activity, which was supported by favorable weather conditions. For the secondary and the tertiary sectors, some parts resumed growth, such as tourism. Between 2000 and 2010, Moroccan GDP recorded an average annual growth rate of 4%. For 2011, the HCP expects a growth rate of 4.3%.

The Moroccan private equity industry is still young, and quite dependent on the changing national and international economic environment. The share of foreign investors in funds raised for investment in Moroccan firms increased significantly, with foreign investors' part of funds raised over now over 50%.

Globally, the private equity industry experienced a significant decrease in funds raised in 2009 (US$150 billion) compared with 2008 (about US$ 460 billion). Similarly, for realized investments, they went from US$181 billion in 2008 to US$91 billion in 2009. In France, funds raised decreased by 71% in 2009, and investments decreased by 59%. In South Africa, a 50% decrease in funds raised was recorded over the same period. For England and the U.S., the economic downturn significantly impacted the volume of funds raised and invested. However, a recovery of investment in the first half of 2010 was recorded, thanks to the good health of emerging economies (mainly Asian countries) and more particularly to the economic vitality of small and medium enterprises.

In Morocco, 2010 figures followed global private equity trends: after a downtown in 2009, funds raised and invested rose again in 2010. This study demonstrates the growing role of this young industry in assisting and supporting SMEs and in the establishment and development of modern and integrated infrastructure.

Scope & Methodology

Scope:

This study covers all **operational funds,** organized under either Moroccan or foreign law, but with a local representative office in Morocco.

It also includes **all sectors, except funds dedicated to real estate and tourism**.

A focus on the funds devoted to investment in the infrastructure is presented separately.

Methodology:

The study used the following approach:

Update of the Scope:

- Identification of new management companies and funds within the scope, and confirmed by the sponsor,
- Direct contact with all fund managers.

Data Collection:

- An in person survey of all stakeholders;
- Establishment of a confidentiality agreement with all management companies involved.

Verification:

Data collected was verified with respect to:

- Completeness reoperations (fundraising, investments, exits) through:
  - Comparison with public data
  - Overlap testing (for co-investment)
- Re cut off rules relative to investment splits and fundraising year (vintage).

Processing:

- Data and calculation validation
- Further analyses post validation
- Results Validation
- Analysis and Commentary

The collected data are centered on:

- Analysis management companies and funds investment strategies and change over time
- Analysis of portfolio companies
- Analysis of exits made and returns achieved
- Assessment of private equity economic and social impact in Morocco

• Assessment of impact on invested companies corporate governance, as well as corporate social and environmental responsibility policies

Section 1: Management companies

This section aims to shed the light on the management companies operating in Morocco via an analysis of change over time, staffing, investment committee organization and ownership.

In certain management companies, support staffing was shared with parent company. In this case, only the dedicated staff was taken included.

Section 2: Change in Funds under Management

Funds raised represent investment commitments signed by equity investors.

For funds investing regionally, only Moroccan allocations were taken into account, based on fund mangers' estimates.

Funds under management are presented by fund generation (vintage) as follows:

- 1999 and earlier: Establishment of the first private equity managers in Morocco.
- 2000 - 2005: Launch of first generation investment funds, resulting in significant increase in funds raised.
- 2006 - 2010: Emergence of specialized and regional funds.

Section 3: Investments

It should be noted that:

• Investments in foreign companies were excluded;

• Number of investments is based on individual fund investments, not invested company, which may have multiple fund investors;

• In case of co-investment, investments were added up based on acquired shares, the average size of transactions and for sectors and regions.

• Future investment forecasts were based on fund manager estimates.

Section 4: Exits

Exits were analyzed on the following basis:

- Exit totals based on sale price;
- Gross IRR by exit, not by fund (in multiple investor cases);
- Only complete exit IRRs are included;
- Only IRRs on equity investments of one year are included;
- IRRs were calculated on the basis of declared IRRs provided by the funds, weighted by amounts invested;
- IRRs are presented by investment stage and by quartile.

Section 5: Evaluation of Economic and Social Impact

• The rate of change in corporate income and employment is calculated on a five-year basis of (2005-2010), and the Compound Annual Growth (CAGR) is weighted by invested capital.

Main Fund Management Companies:

ALMAMED	Massinissa
	Massinissa Luxe
AMUNDI	Al Kantara Morocco
	Al Kantara LP
ATLAMED	AM Invest Morocco**
ATTIJARI INVEST	Agram Invest
	Igrane
AUREOS	Aureos Africa Fund
	Africa Health Fund
AZUR PARTNERS	NEBETOU ***
CAPITAL INVEST	Capital Morocco**
	Capital North Africa Venture Fund
CDG CAPITAL	Accès Capital Atlantique**
	Fonds Sindibad**
	Cap Mezzanine
CFG Groupe	CFG Développement**
DAYAM CAPITAL RISQUE	Dayam SA
FIROGEST	FIRO
HOLDAGRO SA	Targa
MAROC INVEST	MPEF I & Afric Invest I**
	MPEF II & Afric Invest II
MITC	Maroc Numeric Fund***
PRIVATE EQUITY INITIATIVES-PEI*	
RIVA Y GARCIA	Mediterrania
UPLINE INVESTMENTS	Upline Technologies**
	Upline Investment Fund
	Fond Moussahama I et II
	OCP Innovation Fund for Agriculture (OIFFA)***
VALORIS*	
VIVERIS	Altermed Maghreb

*** Funds not yet closed**

**** Funds currently exiting**

***** Funds created in 2010**

Executive Summary

- In 2010, cumulative capital raised totaled **7.28 billion MAD**, of which around **3 billion** MAD was raised by regionally focused funds.

- There was strong growth in **regional** funds targeting Africa, Maghreb and certain sector funds, particularly focusing on **agriculture, food, health and ICT**.

- Funds raised increased 743 million MAD in 2010, a 13% increase over 2009.

- By year end 2010, cumulative investment reached 2.6 billion MAD.

- 2010 witnessed a strong recovery in investment with **650 Million MAD** invested over 32 investments (including re-investments and co- investments).

- International development finance institutions (DFIs) share of capital raised increased significantly in the 2006-2010 fund raising period in comparison with the 2000-2005 period.

- Fund investments showed a progressive sectoral and domestic regions diversification.

- **Foreign investors** share in funds continued to significantly expand since 2006, nearly **50% of funds raised.**

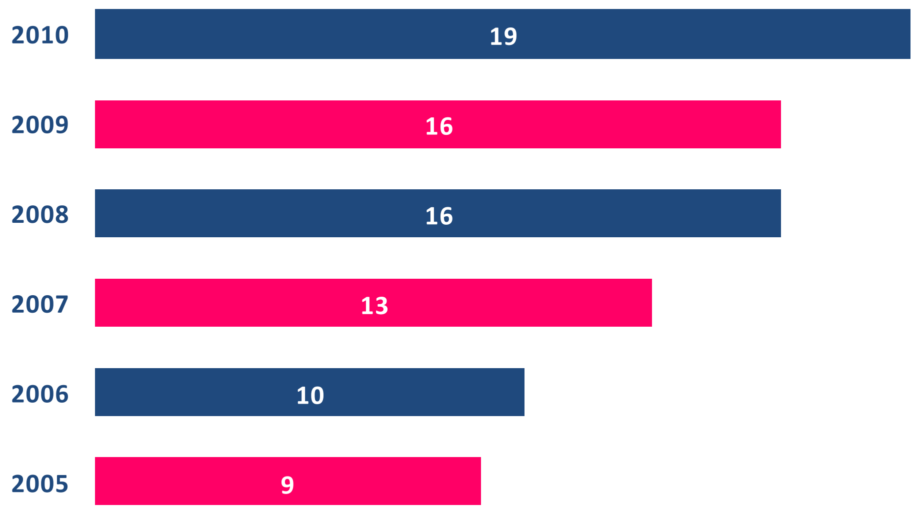
- Corporate governance of invested firms showed significant improvement after private equity investment.

- Over 36 firms were exited, with an average investment time of four and a half years.

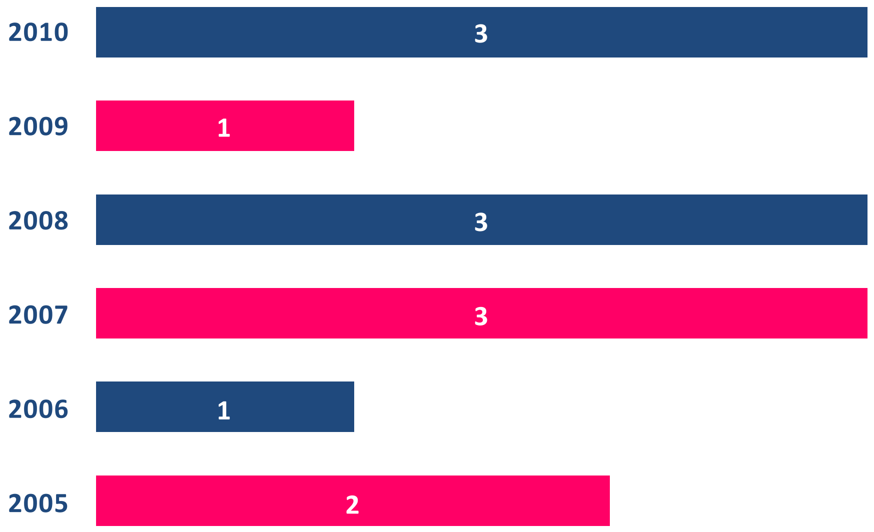
- The global average weighted IRR was 17% on all exits through 2010.

Fund Management Companies

- **Change in number of fund management companies:**



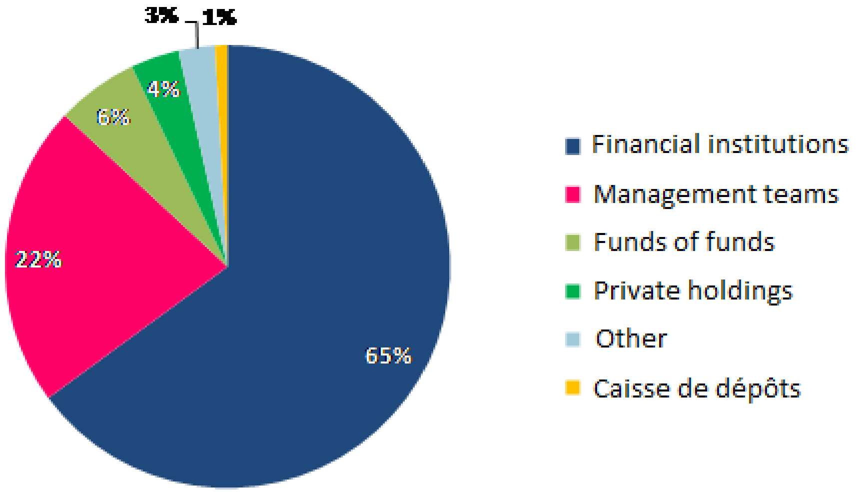
- **Number of fund management companies created yearly:**



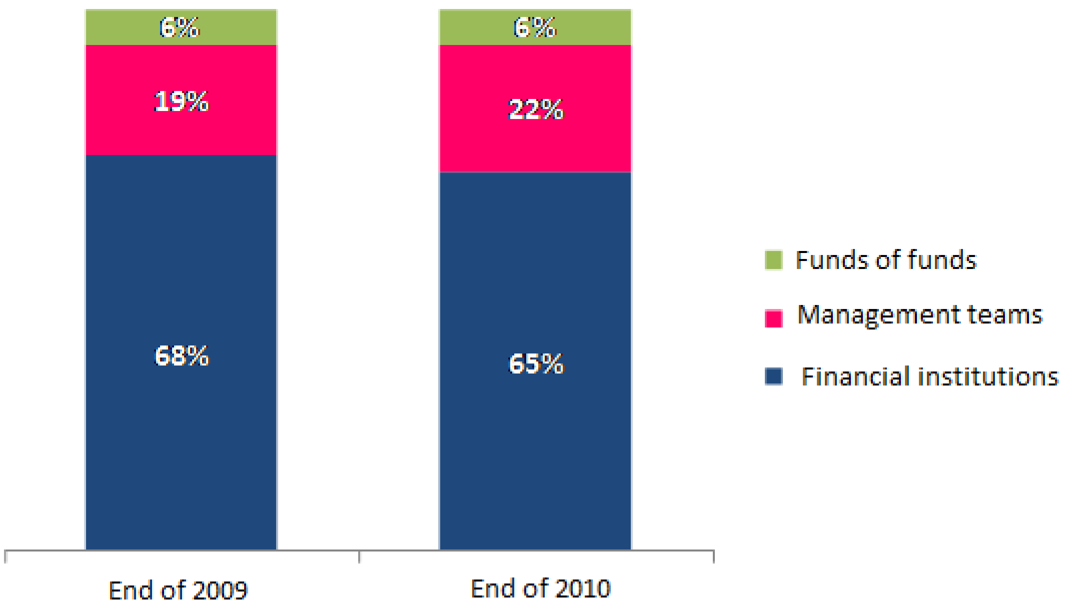
The number of management companies continued to grow in 2010, with three new companies created, namely:

- Valoris
- Azur Partners
- Private Equity Initiatives

- **Fund management company ownership:**



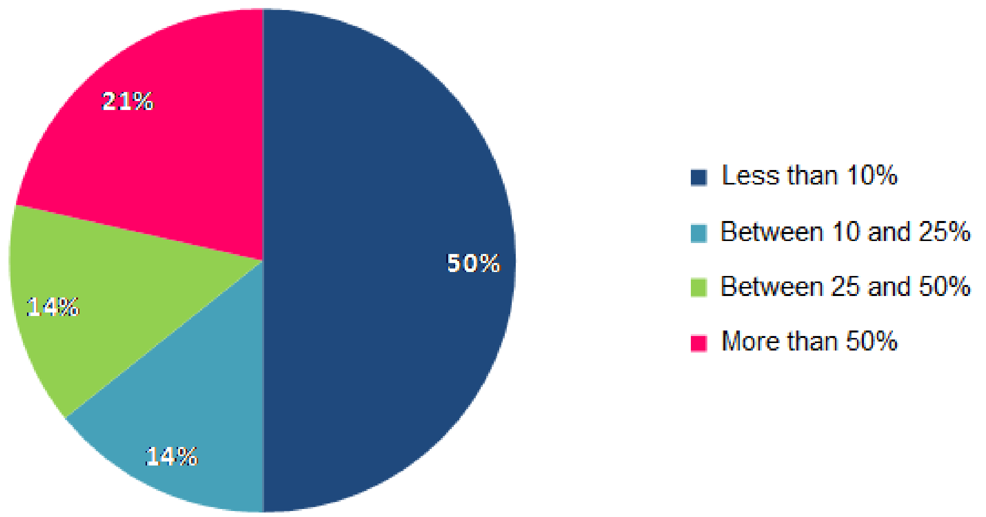
** Financial institutions include banks, Asset management companies, and insurance companies. Caisse de dépôt is a state pension / asset management entity.*



Matching international trends, management teams' expanded their share in the overall ownership of the management companies

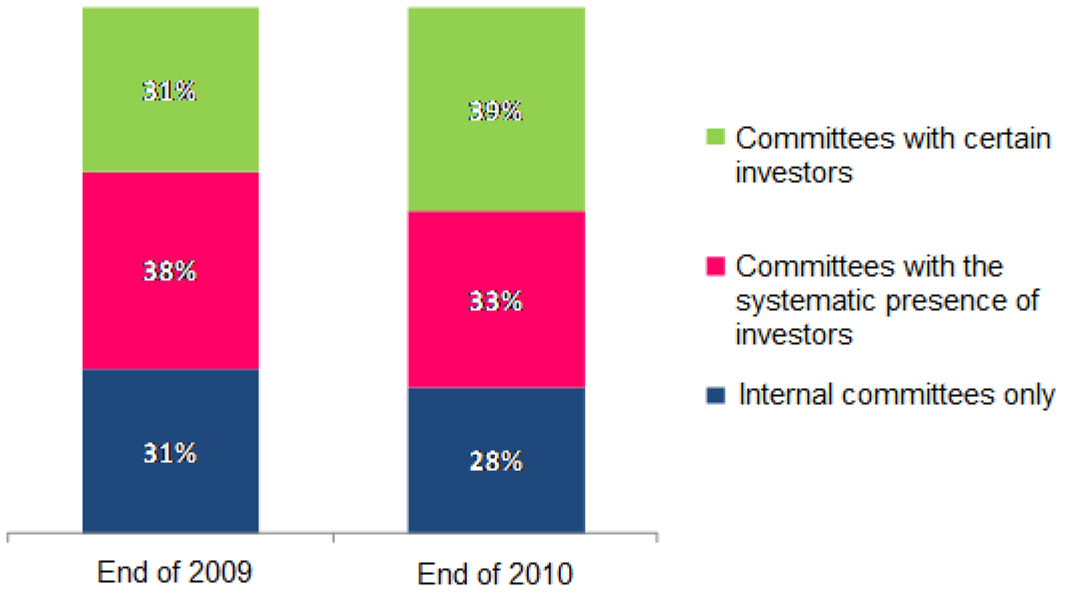
- **Contribution of Parents to Managers Funds Under Management: ***

** Sample: 14 management firms with parent companies (captives), the remainder are entirely independent.*



Half of the management companies received less than 10% of funds under management from their parent companies, indicating that most managers are largely raising funds from outside investors.

- **Investment committees structure:**



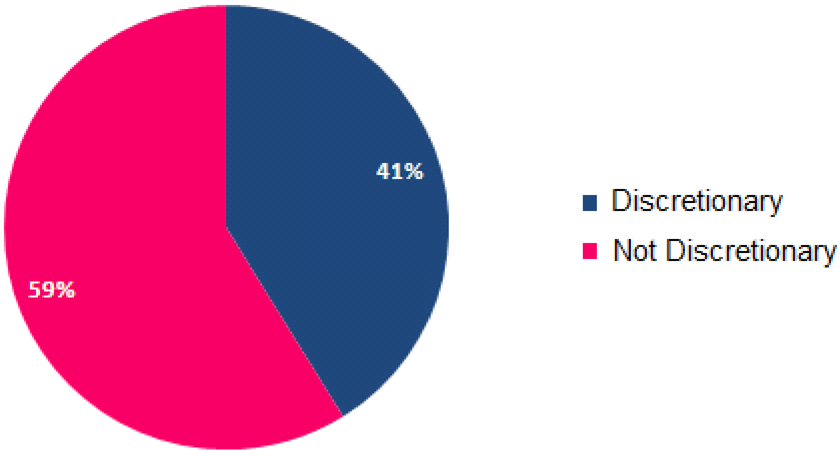
33% of fund management companies' investment committees include all fund investors.

39% of fund management companies' investment committees seat select fund investors (depending on their level of investment), and include industry experts as well.

28% have management team committees without any investors.

Compared to 2009, there is a trend towards greater autonomy in the organization of investment committees.

- **Management: discretionary or non discretionary**



For 41% of management companies, final investment decision rests with the management team.

- **Management Company Staffing:**

The average team size of Private Equity managers operating in Morocco is 5, of which on average 4 are in business functions and 1 is in support functions.

Funds Under Management

- **Change in number of funds under management:**

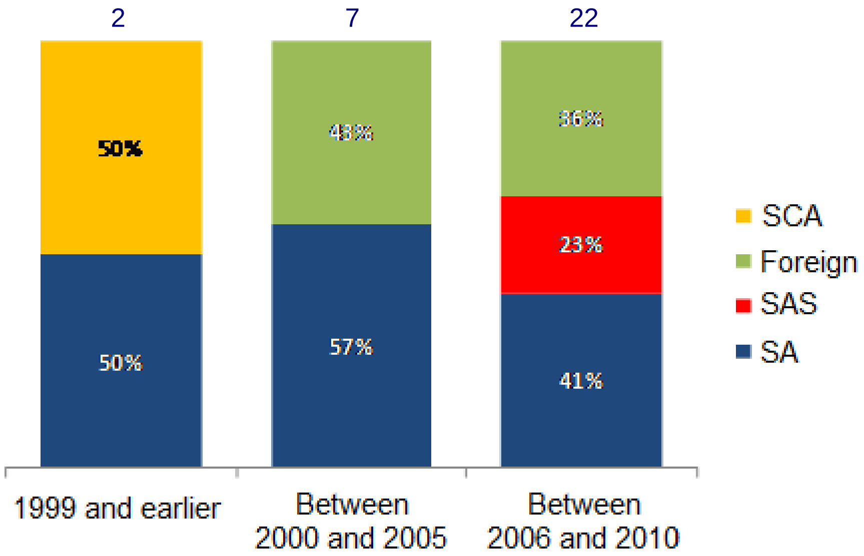
At the end of 2010, total number of funds under management was 30.
3 sector focused funds were created in 2010:

• NEBETOU
• MOROCCO NUMERIC FUND
• OIFFA

In the following analysis, the number of funds created per period was:

• 1999 and earlier: 2 funds
• 2000 - 2005: 7 funds
• 2006 - 2010: 22 funds

- **Fund Legal forms (number of funds):**

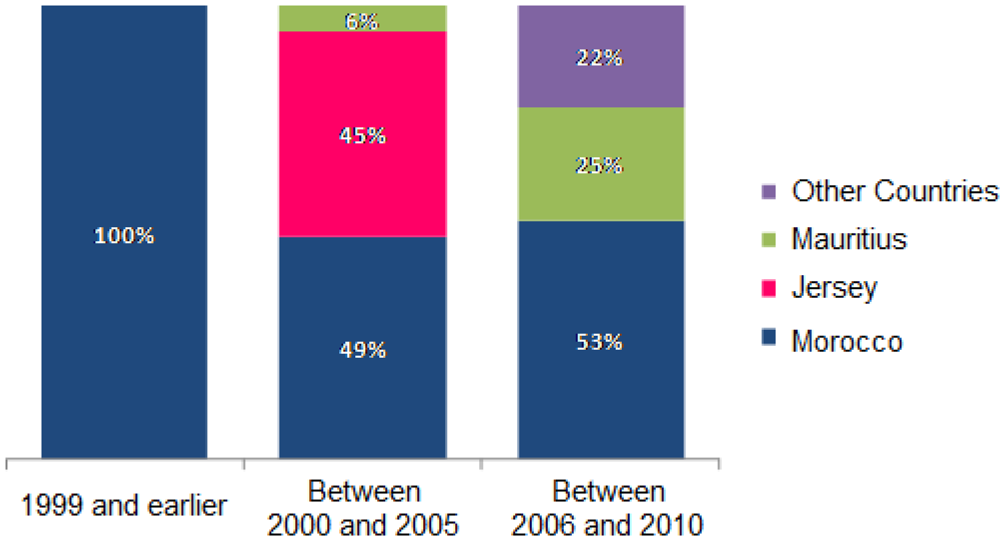


Between 2006 and 2010 23% of funds opted for the SAS structure. Furthermore, at the end of 2010, no funds had yet established an “OPCR”, a new legal form created by Law 41-05 on venture capital, whose implementing decree was published in June 2009.

Corporate forms:

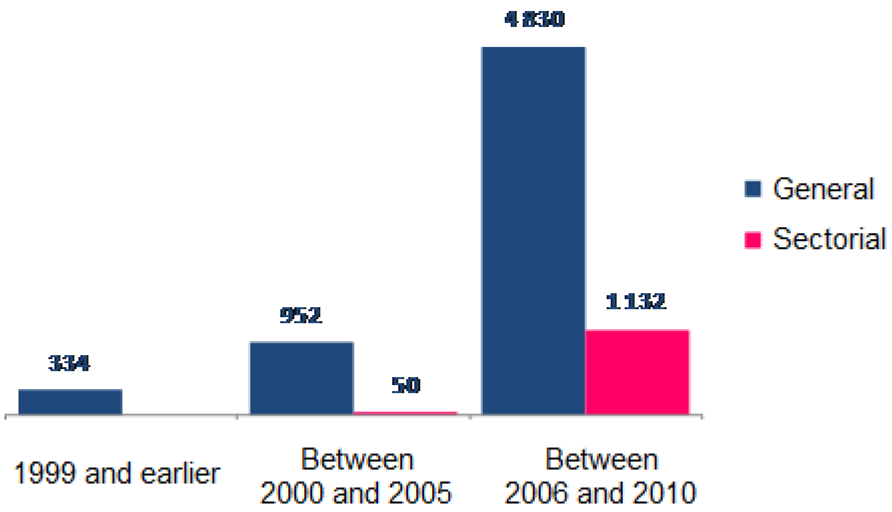
SA: Société Anonyme, equivalent to Corporation
SAS: Société à Actions Simplifée, equivalent to Limited Liability Company (LLC)
OPCR: special venture capital funds vehicle created by Law 41-05

- **Funds Country of Domiciliation (by capital raised):**



At the end of 2010, almost half the funds were domiciled overseas (Mauritius, Jersey, France, Tunisia, Luxembourg and Spain).

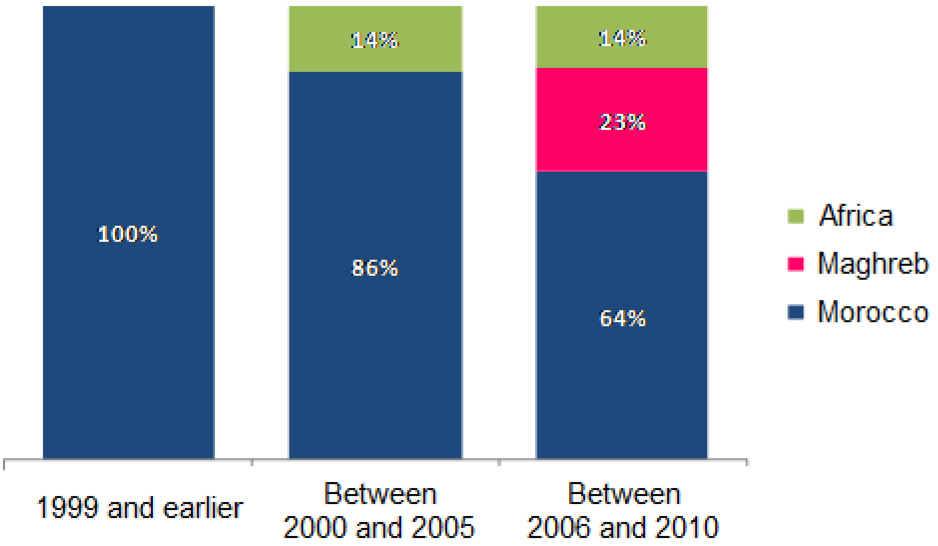
- **Fund Types (by capital raised):**



Since the last generation of funds, there has been an increase in sector funds (about 1 billion MAD in funds raised), especially focused on agriculture, agribusiness and ICT.

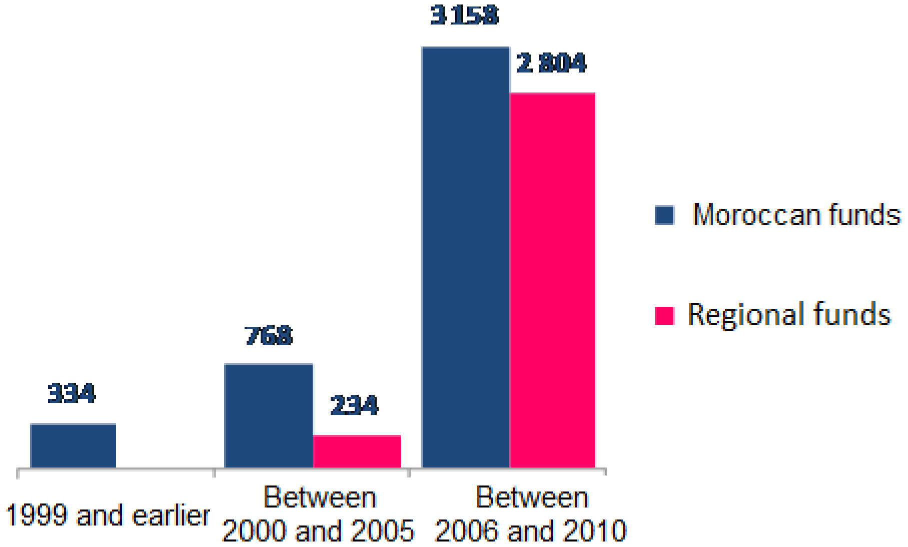
Additionally, 60 million MAD was raised for a dedicated pan-Africa regional health fund.

- **Priority investment areas (number of funds):**



Since 2006, there was a strong growth in regional funds targeting Africa and the Maghreb.

- **Amounts raised by fund vintage:**

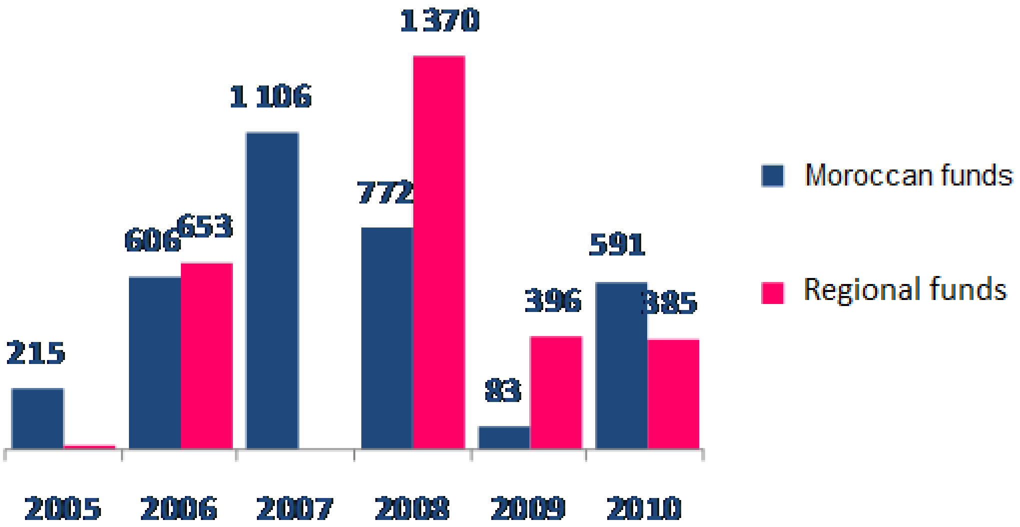


(in Million MAD)

Regional funds raised more than 3 billion dirhams, 42% of total funds raised.

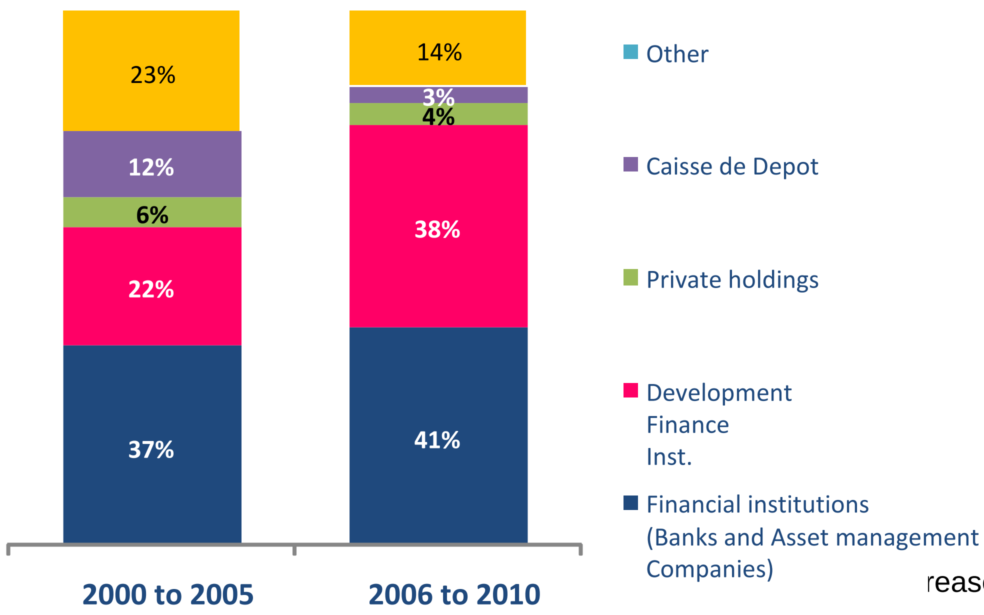
From 2006 forward, funds raised by both Moroccan and Regional managers has taken off.

- **Capital raised by year:**



Fund raising stalled in 2009. However, in 2010, there were signs of a good fund-raising recovery, with funds raised amounting to MAD 976 million.

- **Raised capital by investor type:**



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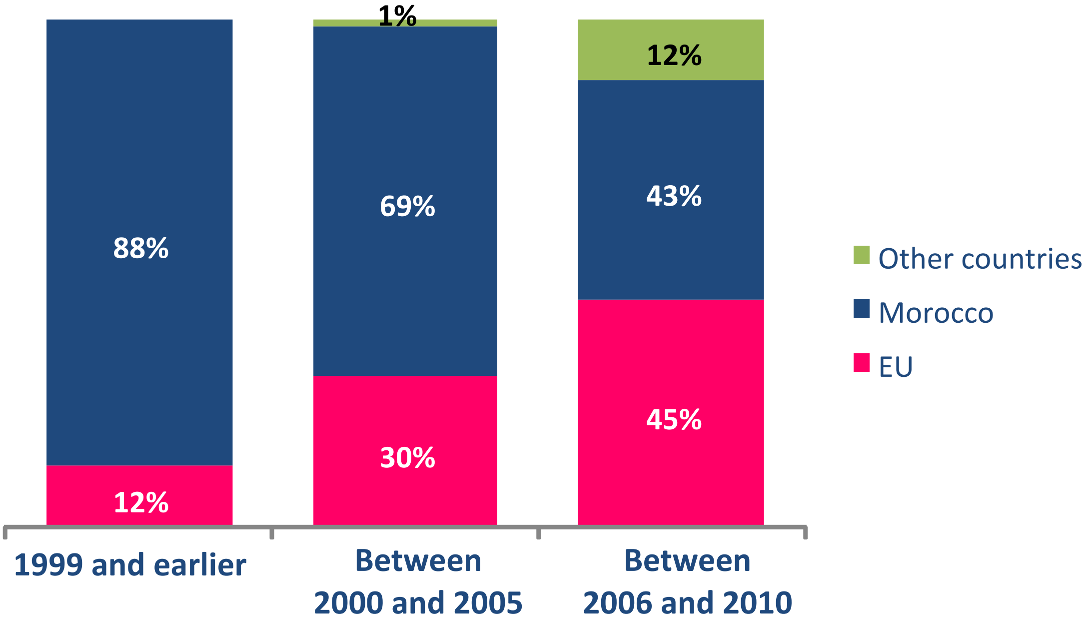
There was also a sharp increase in investment by Development Finance Institutions (DFI, e.g. IFC) (16%).

The category "Other" includes:

- Local governments (3%)
- Individuals (2%)
- Moroccan State Offices (4%)
- Pension funds (2%)
- Funds of funds (2%)
- Investment companies (1%)

- **Capital raised by investor nationality (amounts raised):**

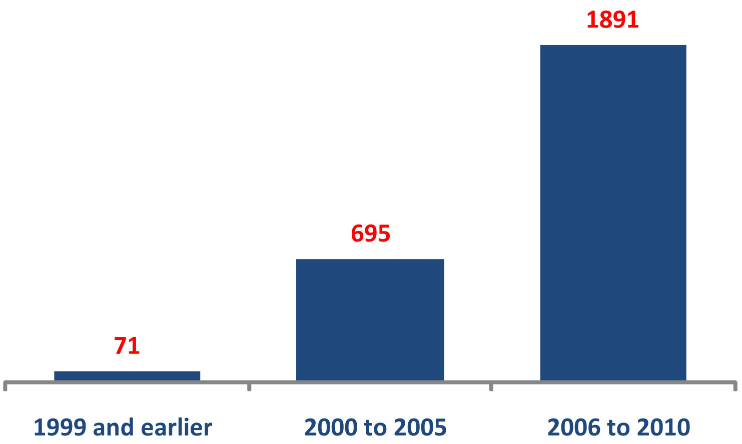


The share of foreign investors has increased sharply since 2006, representing now over 50% of funds raised.

Other countries include mainly African countries, the USA and the Gulf states.

Investments

- **Evolution of invested funds:**



The cumulative amount of investments reached **2.6 billion by end of 2010**.

The difference between funds raised and funds invested is primarily due to:

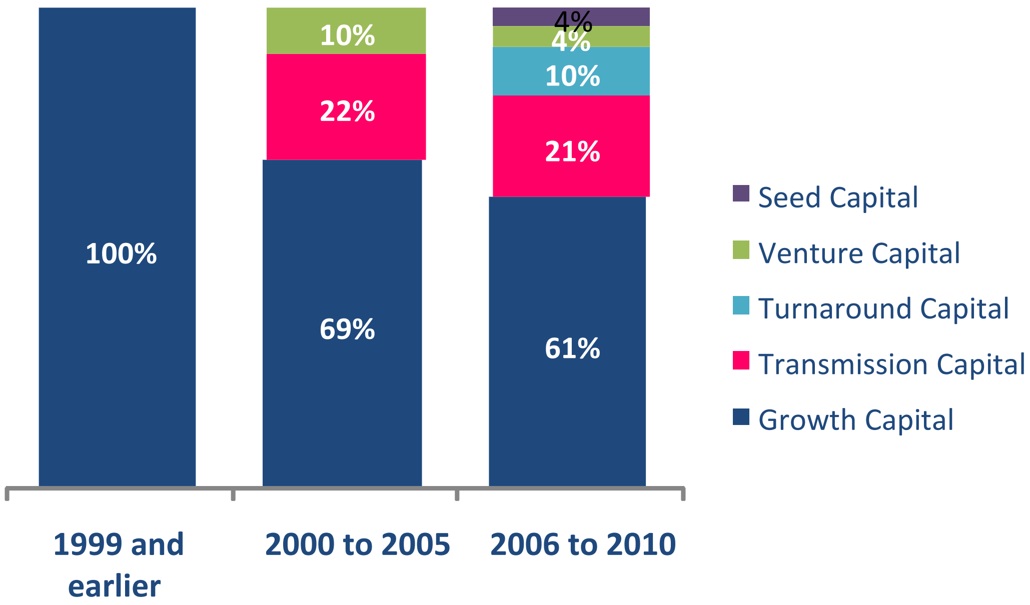
- A significant portion of funds raised by regional funds (not exclusively dedicated to Morocco), has yet to be invested and thus allocated;
- Management fees;
- Exchange rate fluctuation.

However, 2010 saw a strong recovery in the amount investment with a total of 665 Million MAD invested.

32 deals were recorded in 2010, as follows:

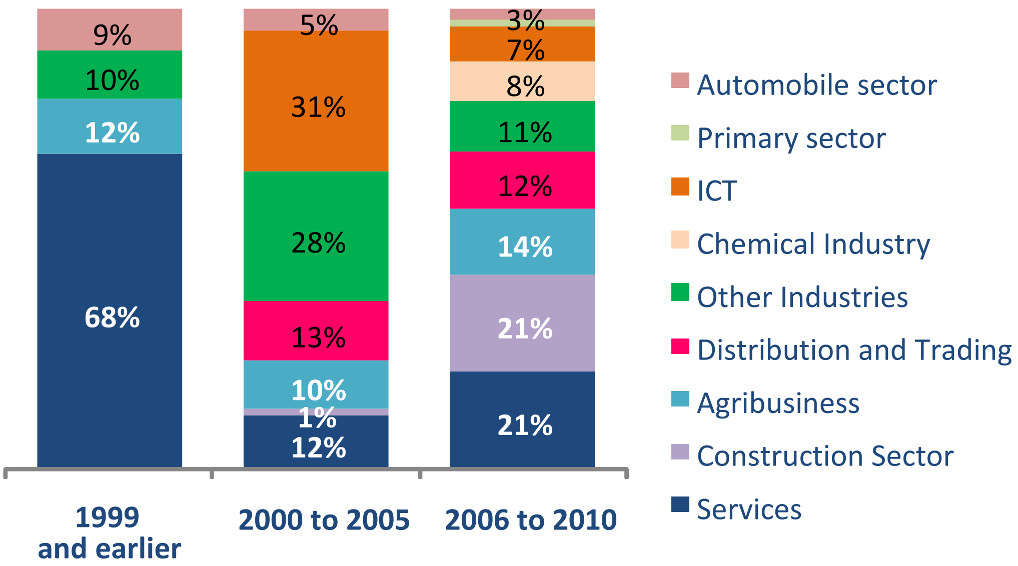
• 19 companies newly invested, including 6 co-investments
• 7 companies reinvested

- **Invested companies by development stages:**



There has been a significant increase, since 2006, in seed and turnaround capital investment.

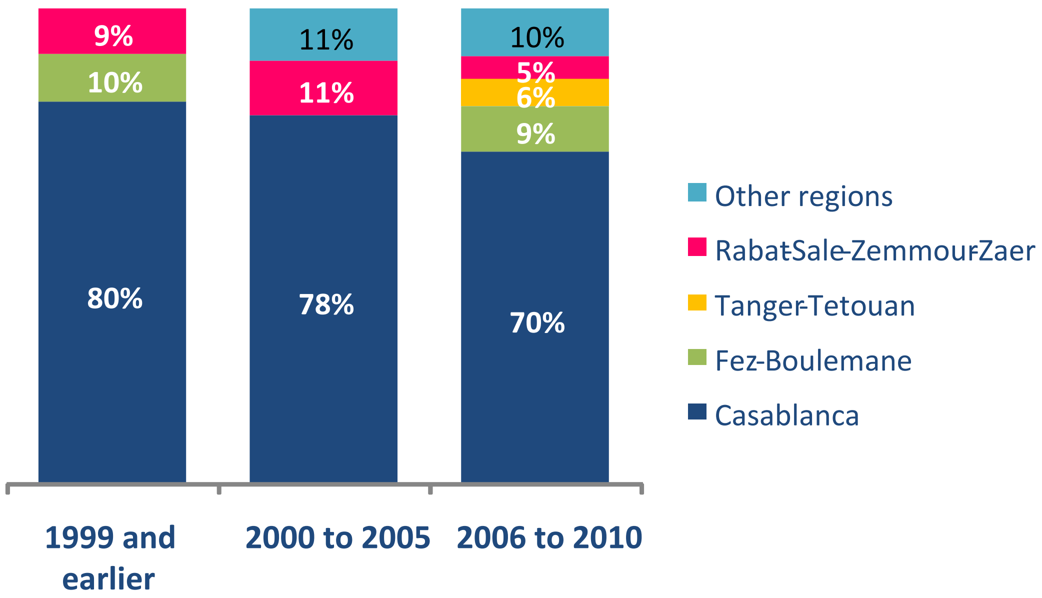
- **Investments by sector (by capital invested):**



Since 2006, investment in services and construction sectors has boomed. Services include various sub-sectors such as publishing, catering, transportation, leasing, e-tourism, etc.

Construction includes companies operating in the real estate construction, including structural steel and aluminum.

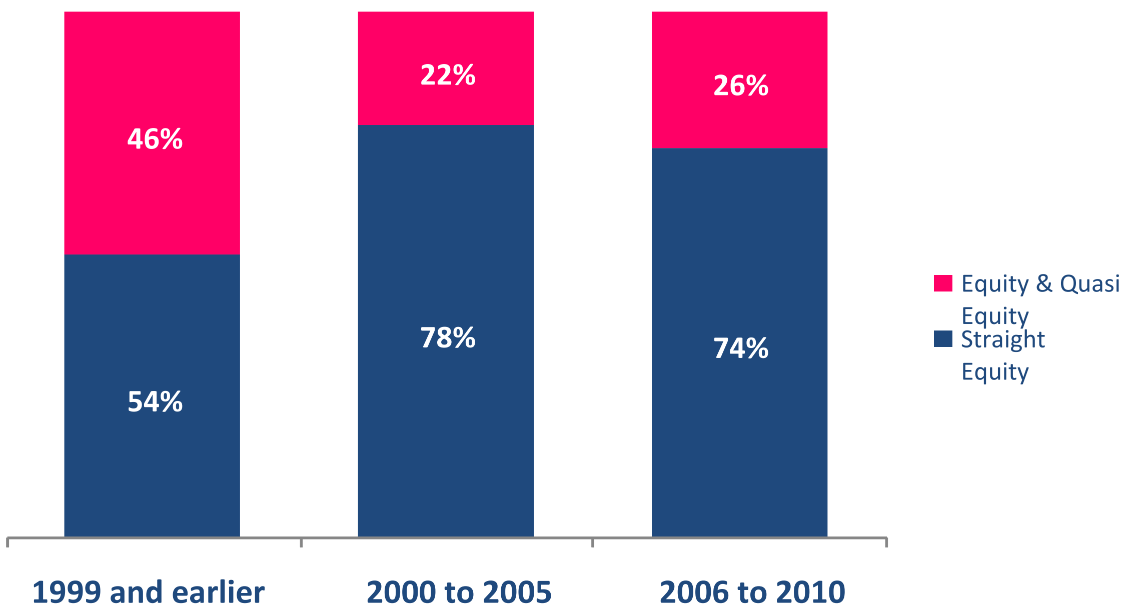
- **Location of invested companies (by capital invested):**



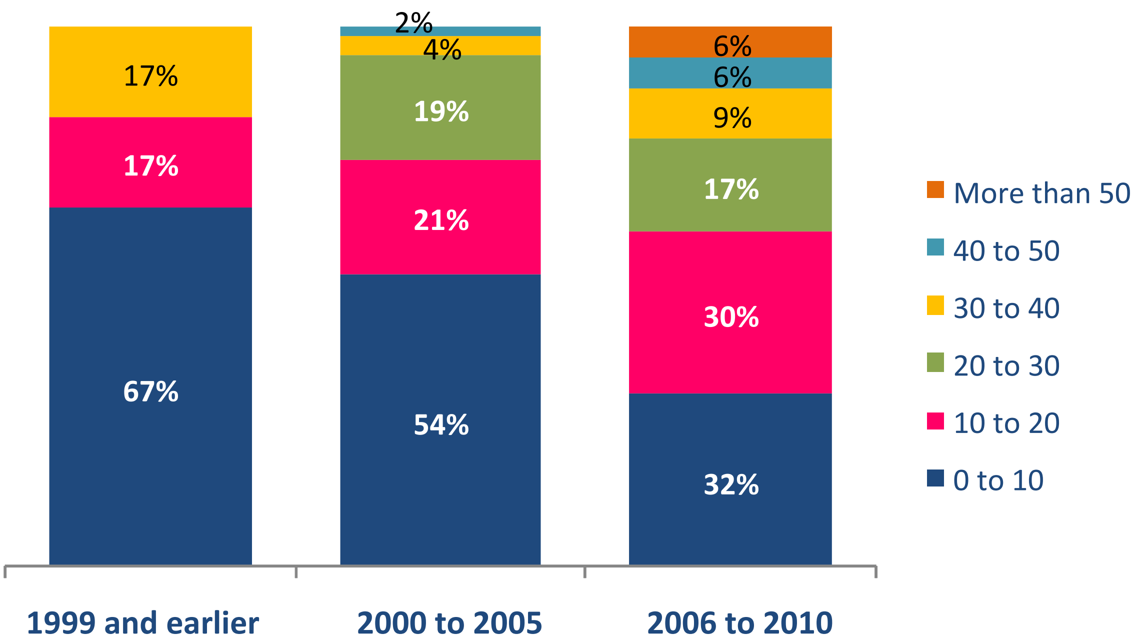
From 2006 to 2010, investment expanded to new locations outside the dominant Casablanca region, in particular: Fez, Tangier, Rabat and other Moroccan regions including:

- Gharb-Chrarda-Beni Hssen (Kenitra)
- Oriental
- Marrakech-Tensift-AlHaouz
- Doukala-Abda (Safi)
- Chaouia-Ouardigha (Berrechid)

- **Enterprises by investment methods (by capital invested):**



- **Enterprises funded by transaction size:**



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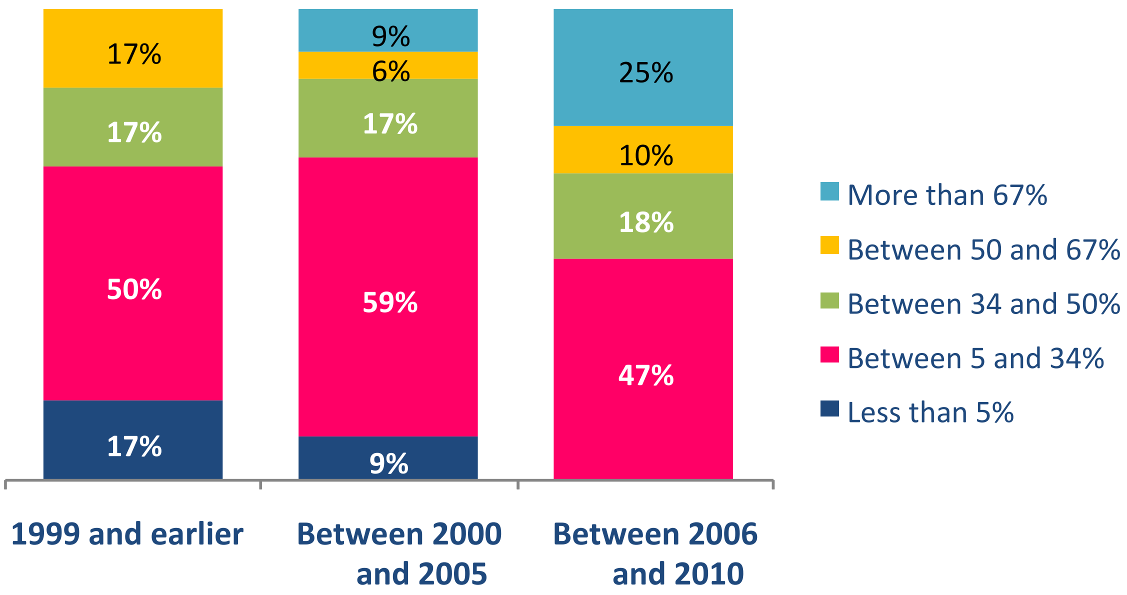
MAD).

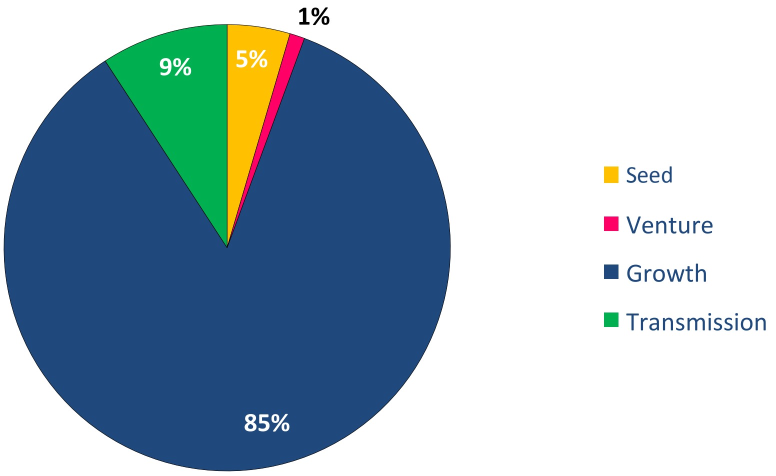
- **Enterprises by percent of capital acquired:**



From 2006 forward there is a noticeable increase in majority equity stakes, while the share of equity stakes less than 34% decreased by over 20 points.

- **2011 Investment forecast:**

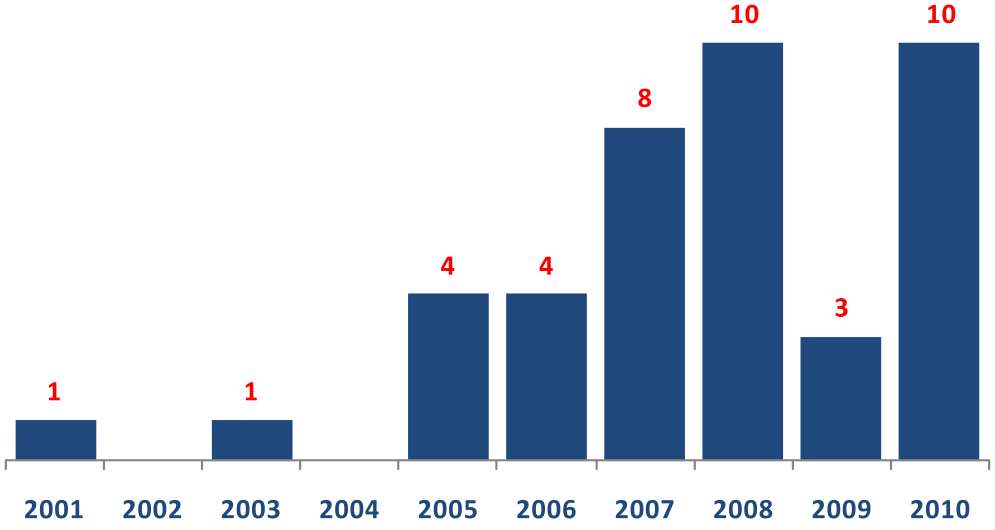
For funds still investing, the estimated amount of investment (in 2011) is 1.5 billion allocated as follows:



The estimated amounts of investment are based on funds' statements of expecations over the next year with one management company not responding.

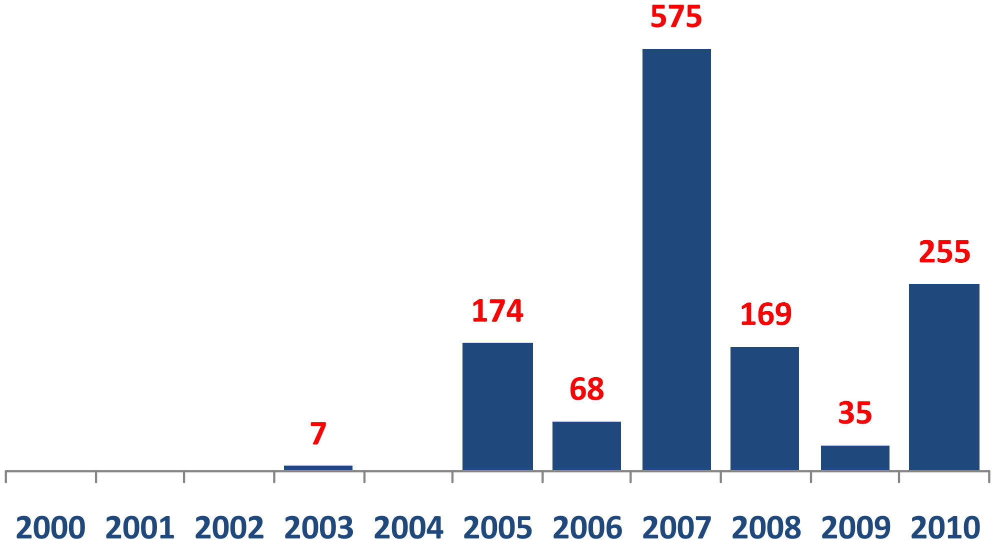
Exits

- **Number of firms exited:**



Of all fund portfolios, 41 total exits were recorded by end 2010, of which 10 exits were completed in 2010.

- **Amount exited per year:**

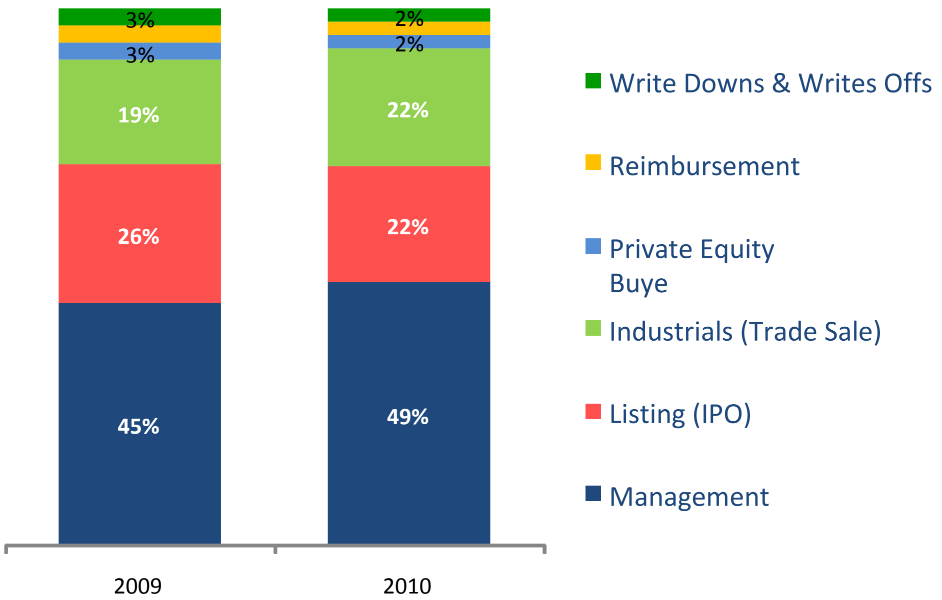


(in Millions MAD)

2010 was marked by significant exits, both in number and in capital returned, reflecting the maturity of the first generation funds.

- **Breakdown by exit type:**

In number:



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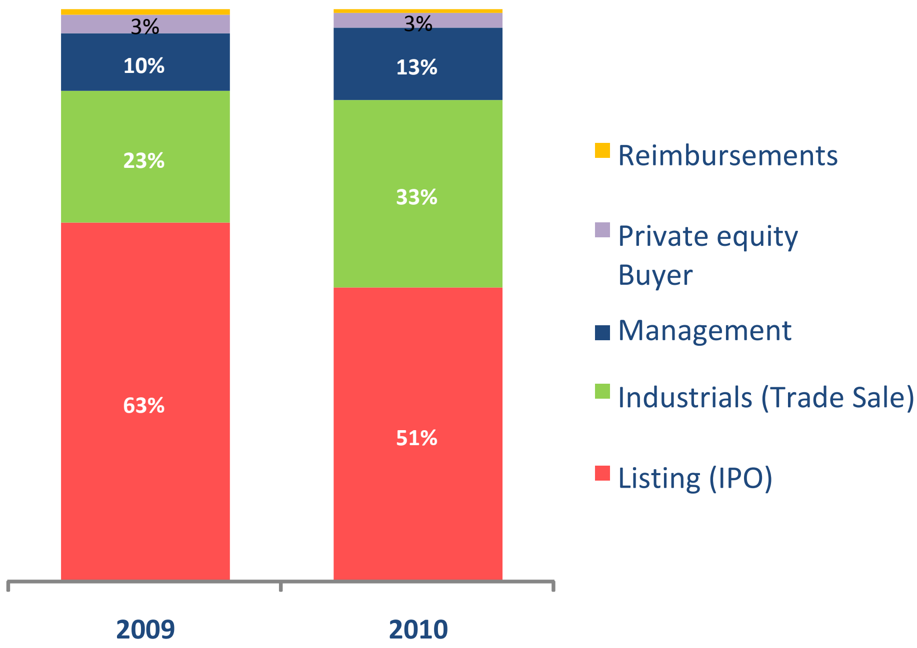


Management buy-backs dominated exits by numbers, but in terms of capital returned, public listings (IPOs) dominated.

- **Average investment time:**

Over 36 companies exited, the average length of investment was four and a half years.

Private equity performance

1- Global weighted average Internal Rate of Return (IRR):

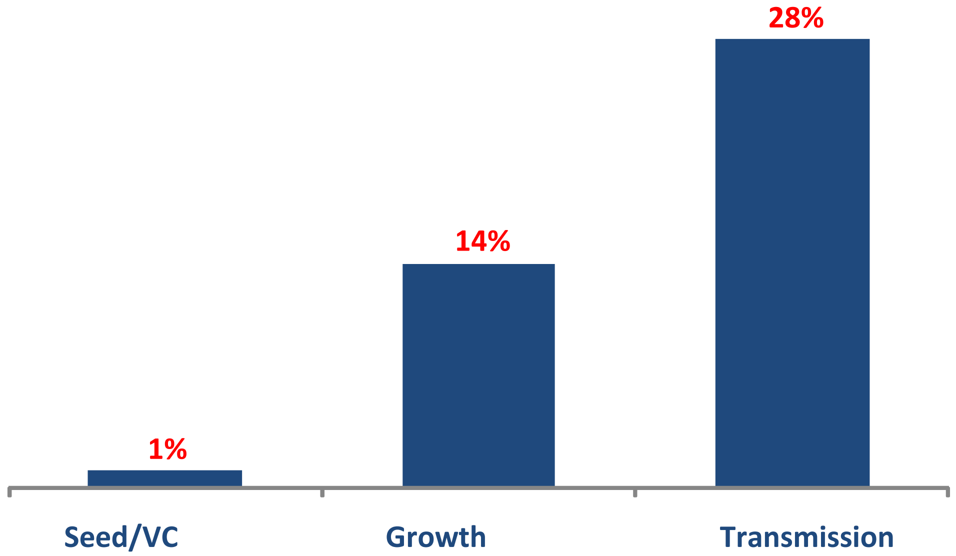
Based on all raw IRR reported by funds, an overall average (from IRRs weighted by capital invested) was calculated. However, it is important to note that the following categories were excluded:

- IRRs from investments with a duration of less than 1 year
- IRRs of partial exits

Based on all exits by year end 2010, the overall weighted average IRR was 17%.

It is worth noting that the overall weighted average IRR was pulled down 7 percentage points, compared to 2009, mainly by negative returns realized on some 2010 exits. It should be emphasized that these reported IRRs are per exit and not the final IRRs for the funds.

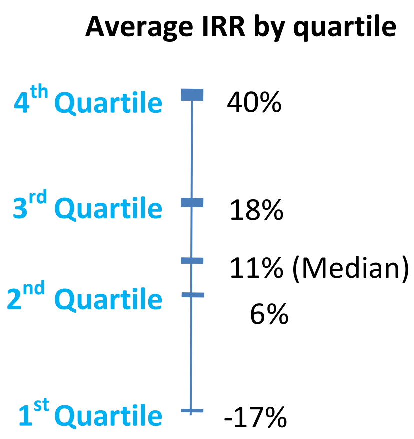
2- Weighted average IRR by investment stage:

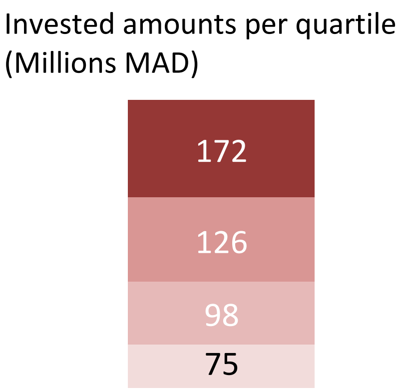


Transmission stage investments returned the strongest performances of reported exits.

The same trends are observable internationally. For example, in late 2009 in France, the average net IRR was 14.5% for transmission capital funds, 7.6% for Growth Capital funds and finally -2.7% for Venture Capital funds.

3- Average unweighted IRRs by quartile:





The top (4th quartile) exits, representing the most successful reflect an average IRR of 40%, on 172 million dirhams of initial capital.
[EDITORIAL COMMENT: I did not edit this, but typically in English we present top Quartile as 1st Quartile, this is reversed. Readers should understand but it might be preferable to have a footnote or something to prevent confusion]

4- Investment multiples:

The average multiple on investment since inception was 1.7 x capitals, as detailed below:

Stage	Multiple	Average investment duration per stage (years)
Seed-Venture	1.1	4.9
Growth	1.9	5.6
Transmission	1.8	2.7

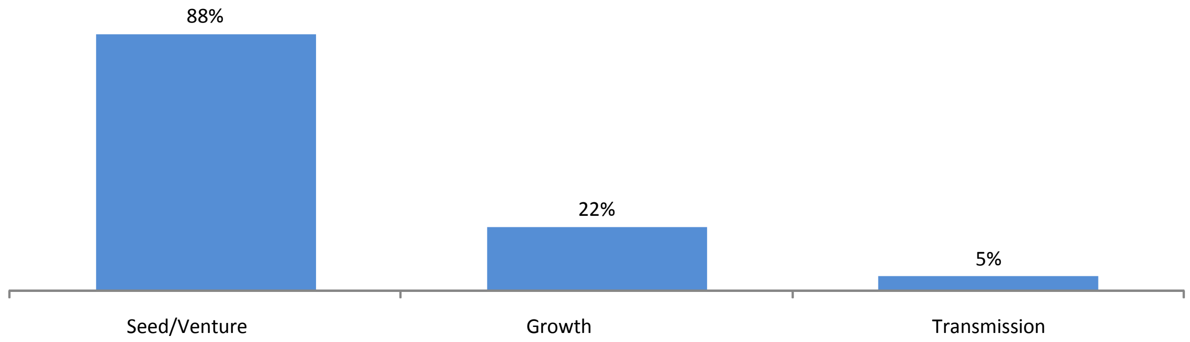
Invested Enterprises' Growth

1- Change in sales of invested firms:

Invested companies' sales (of firms still in portfolio), showed **an annual increase of 26% over the last five years.** In total, invested enterprises achieved **total sales of nearly 6 billion dirhams.**

The annual change in sales was calculated on the weighted average, by capital invested.

2- Sales growth by development stage:



Seed/Venture stage companies achieved the highest sales growth.

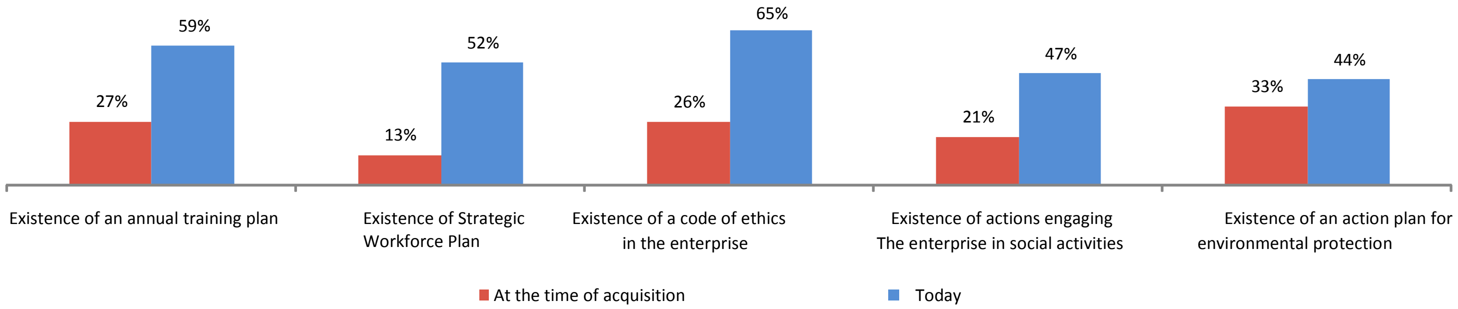
3- Invested companies employment growth:

Employment growth in invested companies (still in the portfolio) was **15% annually over the last five years**. Total employment, **in invested firms (still in portfolio in 2010) was approximately 11,000.**

Employment growth did not significantly differ by development stage.

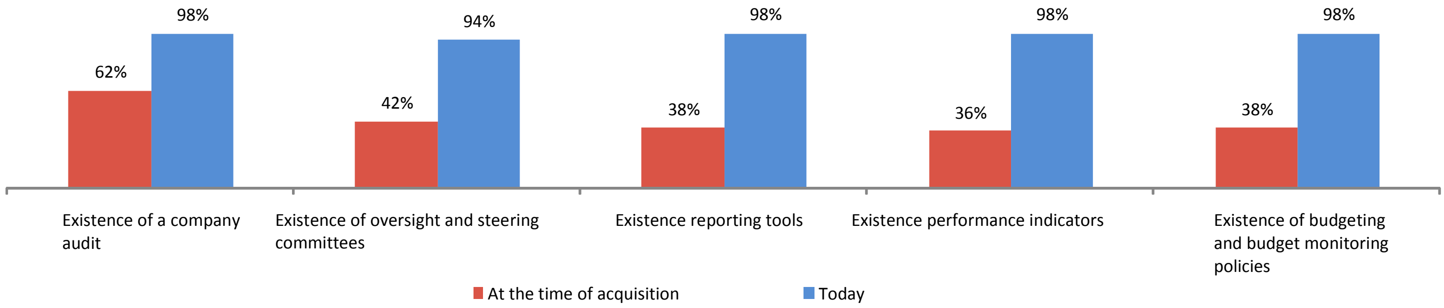
Private Equity's Economic and Social Impact

- **Invested Firms improving organization and social engagement:**



Post-investment improvement in invested firms organization and social engagement has been remarkable, showing significant positive impact.

- **Invested firms improving corporate governance:**



Invested firms showed significant improvement in terms of corporate governance after private equity investment.

Focus: Infrastructure Funds

The economic and social development of a country is associated with the development of its infrastructure. Providing sanitation, energy, transport and efficient communication infrastructure can make a major contribution to improving the standard of living, to economic growth and to supporting emerging countries developing greater trade in the global economy.

Infrastructure funding commonly draws on public funds for the implementation of projects in order to improve citizens living conditions and reduce poverty in developing countries. Due to the size of the financing needs of infrastructure, public-private partnerships to finance such projects were developed, which has led to the emergence of to specialized investors, attracted by this new asset class that generates stable and predictable cash flows over the long-term.

In Morocco, the development of infrastructure funds is very recent. In 2007 EMP Global and Attijari Invest created an almost 1 billion dirham Moroccan Investment Fund (MIF) aimed at the energy, water and sanitation, solid waste, telecommunications, maritime, transport and aviation, sectors, as well as the hospitality and agribusiness sectors. MIF fund targets both new infrastructure projects (greenfield) and existing projects (brownfield). Since 2007, three new infrastructure funds have been created targeting not only national but also but also regional and even African investments.

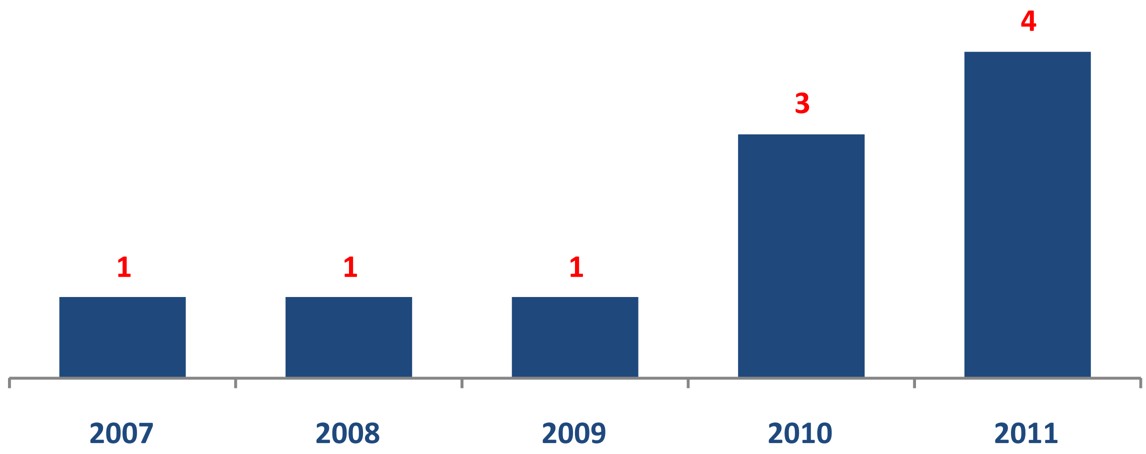
2010 saw the number of infrastructure funds expand to 3 with the creation of ARIF Fund (Argan Infrastructure Fund) by the FinanceCom group, and whose investment strategy is both regional and continental, as well as Fonds INFRAMED by the CDG group, which will invest mainly in Morocco and Egypt. In addition, in 2011 CDG Capital created in 20INFRAMAROC fund, aimed at investing in greenfield projects in Morocco.

Collectively, MIF, ARIF and INFRAMED manage 2.2 billion dirhams for investment in infrastructure projects in Morocco.

The survey covered the following infrastructure funds operating in Morocco:

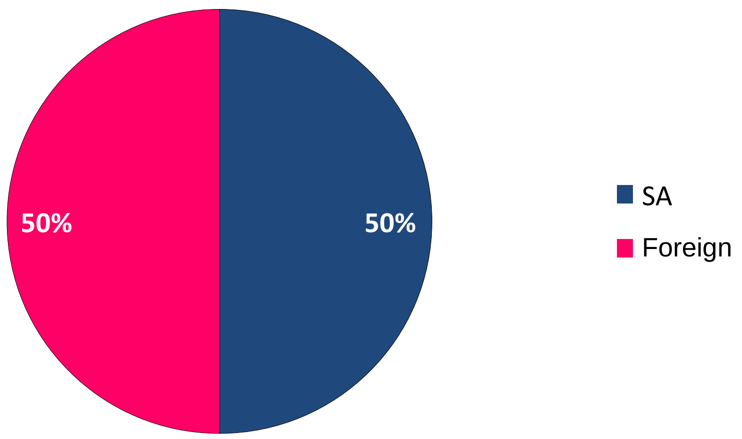
- Moroccan Infrastructure Fund (MIF)
- Argan Infrastructure Fund
- Infra Med
- Infra Maroc

Number of infrastructure funds (cumulative numbers):



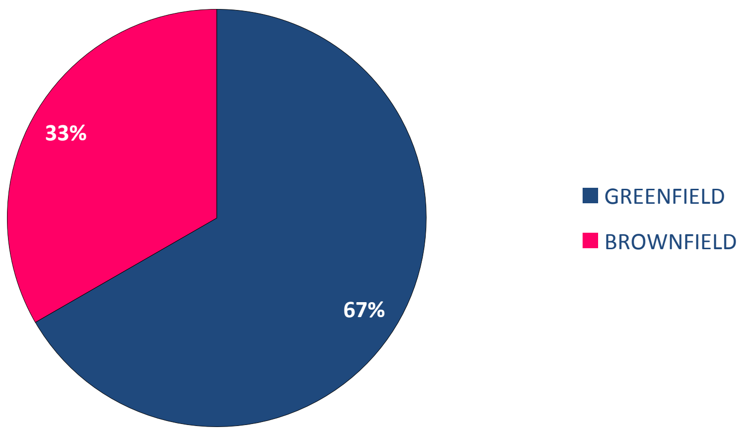
Four funds were established in the last four years invest in infrastructure development projects in Morocco.

Legal forms of infrastructure funds:



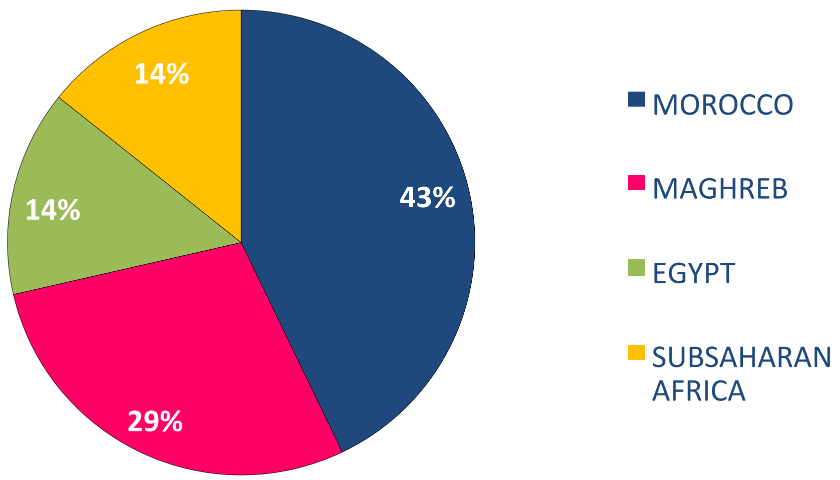
50 % of infrastructure funds are structured as Moroccan Societés Anonymes (corporations).

Types of operations targeted:



Two funds of the three target new infrastructure projects (Greenfield)

Priority investment geographies:



Although Morocco is the priority geography for approximately 43% of the infrastructure investment funds available, there is a significant regional and African continent component as well.

Conclusion

The 2010 private equity report demonstrates this young industry's dynamism and its increasing role in the Moroccan economy through greater investment in the secondary and tertiary sectors.

The emergence of sector funds reflects a strong commitment of investment funds to developing sectors with a significant value added to the national economy.

It is important to note that most invested companies are medium-sized SMEs. They are seen by investors as presenting attractive growth prospects and returns. As of end 2010, the average IRR (internal rate of return) for funds was 17%.

Beyond this, it is important to stress the investors support to invested firms by helping promote a remarkable improvement in corporate governance and capacity.

In this connection, a study was conducted by CESEM (Centre for Social, Economic and Managerial Studies) on the impact of private equity investment in family firms. The results are quite encouraging. Equity investment resulted in the professionalization of management and the organization of these enterprises. Roughly 95% of managers surveyed were satisfied by the impact of private equity investment in their businesses.

In terms of investment, there is a clear trend towards a domestic Moroccan regional diversification of investment, with expanding investment in the South, North and East, in keeping with the new policy of regional development taking shape in Morocco.

Also, a take-off of funding for seed stage companies has highlighted the role of private equity in supporting entrepreneurship.

In terms of regulation, a new national definition of SMEs (turnover less than 175 million MAD) should encourage management companies to create OPCR funds (a Venture Capital platform) that could benefit from tax transparency. This dynamic should provide new impetus to the private equity industry in Morocco and strengthen the role of private equity in the growth, support and success of small and medium sized enterprises in Morocco.

Glossary and Acronyms

Seed Capital:
Seed Capital investors bring, along with equity, a professional network and personal experience in early stage entrepreneurial projects that are still in development.

Venture Capital (early stage):
Equity or quasi equity in young enterprises and start-ups.

Growth Capital (late stage venture capital):
Investment in equity and quasi-equity in order to finance the development of a business or the acquisition of new stocks. The business partner is a company established in its markets, profitable and having significant growth prospects. Frequently called Growth Venture Capital.

Transmission Capital:
Transmission capital investments in management or owner succession aimed buyouts in mature firms.

Raised Capital:
Confirmed investment commitments in venture or private equity funds.

Invested Capital:
Capital invested in enterprises by venture or private equity fund companies.

Private Equity Fund:
An investment vehicle that raises capital from a diverse group of investors with a view to investing in unlisted private firms and realizing capital gains shared among investors.

Funds of Funds:
A fund raising funds from multiple sources for investment in a diverse number of private equity funds.

Discretionary Management:
Classic private equity structure where individual investment decision are in the hands of the management team.

GPEC :
Strategic workforce planning (Gestion prévisionnelle des emplois et des compétences) is a proactive human ressources management.

Economic Infrastructure:
Equipment or facility whose primary use is for economic purposes such as highways, telecom networks, waste water treatment centers, electrical distribution systems, etc..

Brownfield:

Assets already existing and operational at time of acquisition.

Greenfield:

New investment assets for new operation.

Financial Institution:

Commercial and investment banks, asset management companies, and insurance companies.

LP (Limited Partnership):

An investment structure that is tax-transparent and mostly used by English speaking world managers. The LP is managed by an independent management company, the General Partner ("GP").

Exit Mode: Management

Share by-back from PE investor by management of enterprise.

Exit Amount:

Exit valued at proceeds of sale of investment in the enterprise.

Multiple:

Investment Multiple = Proceeds of sale / Invested amount.

Quartile:

Division of the quartiles are the values that share a set of values into four equal parts. Thus, in the distribution of IRR for example, the first quartile is the IRR below which lie 25% of IRRs.

Quasi Equity:

Financing vehicles that combine both debt and equity characteristic.

SCA:

“Société en Commandite par Actions” is equivalent to a partnership limited by shares

SAS:

“Société par Actions Simplifiée” is equivalent to a Limited Liability Company (LLC)

IRR (Internal Rate of Return):

Rate measuring the average annualized return of an investment consisting of negative flows (cash outflows) and positive flows (cash inflows). It is used to measure and monitor performance of private equity transactions.