Dr. Karim El Solh, CEO, Gulf Capital

THE PRIVATE EQUITY PRO

Dr. Karim El Solh

Co-founder and CEO, Gulf Capital

"Entrepreneurs in the Middle East face numerous challenges when launching and growing a business in the region. One of the biggest ones is access to adequate financing to fund growth of SMEs. For example, in the UAE, SMEs represent 90% of total businesses, yet they secured only 4% of total outstanding loans in 2014. This points directly to the main financing challenge facing SME sector growth. Private equity firms, with a greater risk for appetite and strong returns, could provide an alternative to bank financing and step in to help plug the financing gap." As the co-founder and CEO of Gulf Capital, Dr. Karim El Solh can easily give you support for the argument that your SME needs a good private equity firm to scale up. Gulf Capital, one the largest and most agile private equity (PE) firms in the Middle East, has been recognized several times via awards and acknowledgements, and they're considered an extremely desirable partner to have in the enterprise space. With investment streams across PE, real estate, credit and mezzanine, the firm is reportedly managing US$3 billion in assets. "Bringing a reputed private equity firm on board can help the entrepreneur to improve his or her operations, fund future growth, scale business and maximize profitability. A partnership between PE firms and management can be very beneficial to both parties if structured properly. By injecting capital and providing operational support, PE firms can make a big difference to a company and help it scale and achieve its profitability and growth targets. If both parties can generate an attractive return in the end by delivering a successful exit, then the partnership is even more powerful and worthwhile– that's what proper alignment is all about."

"BY CLARIFYING THE LONG-TERM GOALS AND LINKING FINANCIAL REWARDS TO THEM, PE FIRMS ENSURE THAT THE MANAGEMENT TEAM IS PROPERLY ALIGNED AND EVERYONE IS WORKING TOWARDS THE SAME GOALS. MOST LONG-TERM INCENTIVE PLANS INCLUDE A CASH (BONUS) COMPONENT AND A STOCK COMPONENT, WHICH VESTS OVER TIME."

Here are six reasons why bringing a PE firm on board can catalyze the growth and profitability of your business:

1. PARTNERING WITH THE RIGHT MANAGEMENT TEAM "PE firms back management teams before they back companies. It is very important that the right management team is in place to execute on the ambitious growth plans. If a management team has a gap or uneven capabilities, the PE firms can step in and help strengthen the management team by sourcing experienced professionals from their wide network of contacts. Putting the best and most experienced team in place will ensure the company grows at an attractive rate and achieves its profitability targets. In addition to the management team, PE firms will focus closely on the composition of the board and strive to attract the right mix of industry, strategy and finance experts at the board to help guide management on both strategy and execution. PE firms prefer to operate at the board level and empower the management team to execute their business plan. While they can help from time to time on a micro level or on a specific task, such as securing adequate bank financing, they prefer to remain involved at the board level and give the CEO and the team the free reigns and accountability to operate and achieve the business plan. However, they will step in and intervene if management is facing difficulties or not executing according to plans. PE firms are active owners and focused on execution, growth and ultimately on delivering a profitable exit, for themselves and for the management team. This brings us to the next reason: proper alignment."

2. ALIGNING INTERESTS "PE firms will spend considerable time upfront to draft a proper business plan and a clear long-term incentive plan (LTIP) to ensure that management have clear goals to strive for and if they achieve them, the long-term incentive plan will ensure that they are properly rewarded accordingly. By clarifying the long-term goals and linking financial rewards to them, PE firms ensure that the management team is properly aligned and everyone is working towards the same goals. Most long-term incentive plans include a cash (bonus) component and a stock component, which vests over time. Naturally, management is not allowed to sell its shares in the company until a proper exit is secured and both the PE firm and management are able to sell to the next buyer at the same time. By focusing together on the end financial result, the PE firm and management are completely aligned and share the same financial interests."

3. WHY PE FIRMS FOCUS ON STRATEGIC OR MAJORITY STAKES "One can enumerate numerous ways to boost profitability, margins and returns. All of these can be meaningless if the PE firm has no control or influence on the decision making process in its portfolio company. The ability to take the right decisions that lead to revenue expansion, cost rationalization and operational efficiencies is decisive to the success of any PE investment. Many PE firms either prefer to acquire a majority stake in their target company to secure control of the board or will structure their investment in such a manner that they are able to effectively influence the company and guide it in the right direction. Without a strategic or influential stake, PE firms are not able to step in and make a difference in their portfolio companies when required. The debate is not whether PE firms should acquire minority or majority stakes but on how to secure the requisite amount of influence to be able to effectively guide management teams, and intervene if necessary. If structured properly, a minority strategic investment can give a PE firm the same governance and rights as a controlling majority stake."

4. CAPITAL INJECTIONS AND FINANCIAL SUPPORT "The growth of companies is often limited by severed financial constraints. In order to further their growth potential, a capital injection is often needed to continue expansion plans. PE firms are in a position to provide such financial support through a capital increase, whether straight equity purchase or a convertible loan structure. The size of the capital increase will depend on the business plan of the company and its long-term financing needs. PE firms can also be instrumental in leveraging their banking relationships to ensure portfolio companies secure adequate loan financing at a reasonable rate. PE firms, especially the larger, more reputed ones, can give portfolio companies instant credibility when approaching banks for financing."

5. REVENUE EXPANSION- PRODUCT AND GEOGRAPHIC DIVERSIFICATION "Many businesses find themselves highly concentrated within a restricted number of products, clients and geographies, which increases their exposure to market swings and risks. In order to diversify and strengthen operations, PE firms help their portfolio companies expand into new attractive product lines and fast-growing new geographies, thus diversifying and widening the revenue base. The ultimate objective is to transform a portfolio company from a small local player into a regional market leader with a broad portfolio of products and services. Not only does this increase overall profitability, but it also increases the appeal of the portfolio company to strategic or financial buyers. At the end of the day, PE firms not only need to support and grow their portfolio companies but they also need to secure a liquidity event, be it a trade sale, financial sale or an IPO. A larger, more regional company is much more likely to get sold or go public than a small local player."

6. OPERATIONAL IMPROVEMENTS AND THE FOCUS ON PROFITABILITY "PE firms are active owners and are very focused on maximizing both the efficiency and profitability of portfolio companies. Cost control and margin enhancements are recurrent themes and PE firms are very focused on achieving operational and profitability KPIs (that they track on a monthly or quarterly basis). PE firms often bring in outside experts to assist management in restructuring and optimizing their operations. Benchmarking of global players and bringing in best in class practices are part of this operational improvement process. Many founders of businesses welcome this assistance as they need help to improve their companies and take them to the next level. Growing both the top line and the bottom line of portfolio companies are key for PE firms to achieve their investment target returns and they use all of the arsenal at their disposal to bring about change and maximize profitability for themselves and other shareholders, including management. For example, Gulf Capital, an active hands-on private equity firm with a wide portfolio of companies across the GCC, has more than doubled its portfolio companies' revenues and more than tripled their EBITDA profitability. At the end of the day, portfolio companies are sold at a multiple of their profitability and PE firms are very focused on these profitability figures and on their own, and the management's, ultimate returns."

GET TO KNOW THE CEO
DR. KARIM EL SOLH

Dr. El Solh's direction for Gulf Capital has seen the private equity firm execute some of the region's most relevant PE deals. The firm has won numerous awards including "Best Private Equity Firm in the Middle East" for four years running (2011, 2012, 2013 and 2014), and was named "Firm of the Year" at this year's international Private Equity Awards. Prior to co-founding Gulf Capital, Dr. El Solh served as the CEO of The National Investor, an Abu Dhabi-based institution that transacted numerous successful PE transactions and was ranked the number one IPO underwriter in the Gulf. Dr. El Solh received a degree in civil engineering from Cornell University, followed by an MBA from Georgetown University, and a Doctorate in Economics from the Institut d'études politiques de Paris.