TURKVEN Supporting Turkish Companies Through Global Resources

FINANCIAL NEWS

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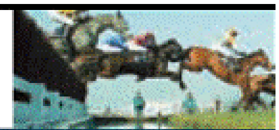
Industry is jumping hurdles by replacing full-blown deals with a stakebuilding approach ... Page 13



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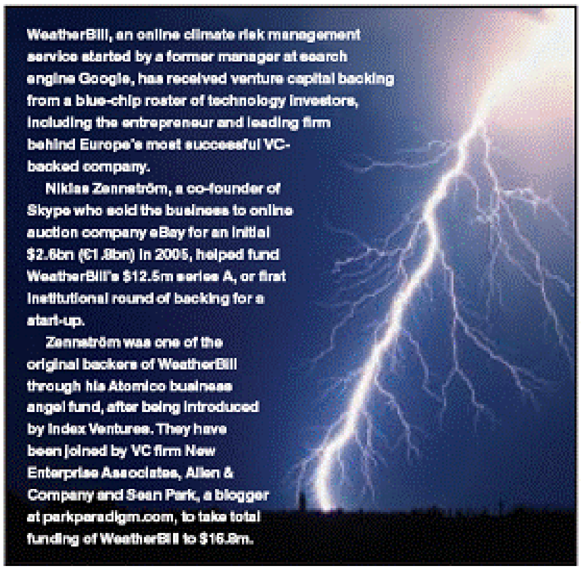

Turkish fund triumphs over adversity with $400m fund close

Catherine Craig

Turkish private equity firm Turkven has made nearly a 10-fold increase in its firepower by raising the country's largest buyout fund despite the economic instabilities of the currency crisis and uncertain markets.

Turkven closed its second fund at $428m (€300m) or almost 10 times the size of its debut fund, which closed at $44m in 2002.

Research house Private Equity Intelligence said the 10-fold trade-up was among the largest achieved through a second fundraising.

The fund, raised between January and July, attracted commitments from institutional investors, about 50% of which came from Europe, with the rest from the US, the Far East and the Gulf.

Despite the large increase in assets, Turkven will maintain its informal co-operation agreement with global mid-market buyout firm Advent International.

Turkven began raising its first fund in 2000 but suffered some setbacks due to the 2001 currency crisis in the country. And fears re-emerged last week as Turkey's secular Government, which is trying to join the European Union, sanctioned a military incursion into Iraq to remove Kurdish rebels from the border region.

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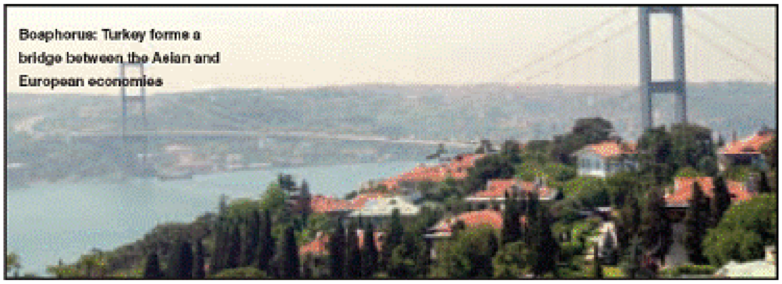
The country is at a crossroads in more ways than one, but KKR's hard-fought success there offers hope, writes Catherine Craig

Turkey takes cautious step forward

It was highlighted as "one of the last high-growth frontiers" for the buyout industry this year and reached an economic watershed when the first $1bn-plus (€705m) leveraged buyout was completed there.

But while the transcontinental economy of Turkey – a bridge between Europe and Asia – has crossed into the territory of more frequent buyouts in the past two years, it has yet to catch up with Western-style deals or to reassure investors its economy is stable enough to support them.



Bosphorus: Turkey forms a bridge between the Asian and European economies

Financial adviser Deloitte highlighted its high-growth possibilities in a survey of Turkey's buyout industry, while Kohlberg Kravis Roberts this month acquired roll-on, roll-off shipping exporter UN Ro-Ro, which transports 60% of exports to Germany, Holland and France, for $1.3bn – its first venture in the country.

KKR's investment, which took a year to negotiate with UN Ro-Ro's 177 shareholders, followed TPG's $810m buyout of beverage and tobacco producer Mey Icki Sanayi ve Ticaret.

Yet investors are concerned about stability in the region. The government's decision last Wednesday to sanction a military incursion into neighbouring Iraq to root out Kurdish separatists blamed for terrorist attacks in Turkey pushed global oil prices to a high of $89 per barrel and provoked alarm among political leaders.

Despite this background, Turkey – a European Union accession applicant – has been attracting investors seeking buyout opportunities since the early 1990s.

From the Ottoman Empire to modern-day liberal democracy, Turkish history has been characterised by political, cultural and economic shift, the mix of foreign investors attracted to early private equity deals in the 1990s bearing testament to this.

Japanese bank Nomura was one of the first to invest in Turkish industry through its asset management arm Sparx Group. Between 1995 and 1998, the group invested an estimated $23m, taking minority stakes in seven companies in the food, textiles, production and packaging sectors. This encouraged foreign banking subsidiaries from Merrill Lynch and AIG, as well as Bank of America's Taurus fund, to invest selectively that decade. They joined local venture capital investors such as Is Bank's venture arm and MV Holding.

The country's development was arrested in 2001 due to a currency crisis, but the scramble to recover means it is one of the world's fastest-growing economies with annual gross domestic product growth of 7.5% since 2002.

Still, buyouts of Turkish companies in which investors have taken a majority stake have been slow to take off. Deloitte estimated less than $2.7bn had been invested by private equity there since 2000, largely in the form of minority stakes – compared with $30bn in foreign direct investment between 2005 and last year.

In addition, a lack of local institutional investors willing to commit to the asset class had made raising domestic funds arduous.

But some tenacious investors have harnessed enough cash – and "gozupek", or courage – to pioneer private equity businesses in the country.

Turkven, an Istanbul-based private equity fund set up by former McKinsey consultants, raised $44m in 2002 from a group of international development funds including the World Bank's International Finance Corporation, the Netherlands Development Finance Company, FMO, the European Investment Bank, German reconstruction bank KFW's development fund, DEG and the Technology Development Foundation of Turkey, in 2002.

Since its establishment, it has been Advent International's partner in Turkey, co-investing in the buyouts of plastic furniture trim manufacturer Roma and bakery UNO. It also co-invested with minority stakes in TPG's acquisition of Mey Icki Sanayi ve Ticaret and Providence Equity Partners' $150m investment in broadcaster Digiturk, according to sources.

Turkven's experience of raising its second fund this year was quite different from the one in 2002. Seymur Tari, one of the founders, said: "When we quit our day jobs in 2000, we didn't know how painful it would be to raise enough capital to get started – but it's proven a good decision."

Just how good is reflected in the $400m the group garnered from a range of institutional investors outside Turkey – including US, Gulf and European institutions – for its latest fund in the first six months of this year.

But it is not the only group with a vested interest. Carlyle Group has an office in Istanbul and AIG Investment, which raised a $100m fund and set up an office in Istanbul in 1999, reinvigorated its Turkish team with the reappointment of Serkan Elden, having stopped doing deals in 2004.

Citigroup Venture Capital International, which typically invests in emerging economies, has done several deals in the country, including retail chains Boyner and Beyman, as has Acterra, a fund set up by the Ontario Teachers' Pension Plan.

Deloitte reports Blackstone, Apax Partners, CVC Capital Partners and Hellman & Friedman are considering Turkey. The UK's 3i is weighing up a deal opportunity and the possibility of establishing an office there, according to local advisers.

Tari said a number of Gulf investors are starting to allocate funds raised from rocketing oil prices to Turkey, including National Bank of Kuwait's private equity arm – NBK Capital – Abraaj Capital, Istithmar and Bank of Bahrain.

Large conglomerates remain powerful, as illustrated by KKR's lengthy negotiations to strike a final deal for UN Ro-Ro. Often run by family members or closely affiliated groups, they harbour financial clout and sector expertise that presents a threat to private equity deals, said Tari.

What is more, accessing debt has been difficult, meaning such levels are lower than in Western buyouts and only available in hard currency, said Tari. But again, the KKR deal provides some hope, since sources said it attracted higher debt levels – nearly half of the $1.3bn deal – and came from local banks Garanti Bankasi and Turkiye Is Bankasi.

Still, lower levels of debt mean investors need to be clear about growth strategies when buying into Turkish companies. Tari said: "Investors looking for bargain-basement deals in Turkey won't find them but, if they have a good management team and the right strategy, they can make good returns, as we have discovered."

And Turkey has yet to engage fully in the debate about private equity's role from a socio-economic point of view. KKR's negotiations for UN Ro-Ro were complicated by resistance from family shareholders and comments from its chairman to the press suggesting the Turkish military opposed the deal.

Baris Oney, author of the Deloitte report, said: "Turkey is in a learning and understanding period about what private equity means. It won't be until we start to realise exits over the next couple of years that this debate will emerge."