

Beyond Covid-19: Emerging market private equity driving growth

These key takeaways are based on a conversation between corporate partner, David Foster and funds and asset management counsel, Kamar Jaffer, with V. Shankar, co-founder and chief executive officer and Huda Al-Lawati, partner, both at Gateway Partners in June 2020. They discuss the role private equity can play in emerging markets as one of the key drivers of global growth following the Covid-19 coronavirus crisis.



Emerging markets continue to be one of the key drivers of global growth:

- Young growing population
- Rapid urbanisation
- Rising degree of affluence and consumption
- Increased demand for basic goods and services



Lessons learned from Covid-19:

- Diversification is key
- Important to manage downside risk
- Look for best relative value
- Innovative investment structuring (e.g. convertibles)
- Deep due diligence as first line of defense
- Proper corporate governance and risk management is critical



Salient private equity opportunities:

- Transformational impact of Covid-19 on some industries
- Supply chain diversification and onshoring
- Digitalisation and automation of processes
- Security for essential products (food, pharmaceuticals and medical supplies)
- Health and wellness



Focus on the following deal terms in private equity transactions:

- Pricing structures
- Use of deferred consideration and earn outs to bridge valuation gaps
- Shift away from locked-box pricing structures to completion accounts pricing structures
- Payment security
- Use of letters of credits, deposits, break fees, escrow accounts, warranty and indemnity insurance
- Conditionality and execution risk
- Focus on material adverse changes clauses
- Risk allocation between buyer and seller



Emerging markets fundraising trends:

- Investors are in the market to re-up and re-allocate to managers they know
- Investors are looking to distressed debt and special situations in the current turbulent times
- Investors are more discerning, disciplined and differentiating in their approach: performance matters!
- Risk management is critical – need to deliver returns in a balanced way
- Quality of the management team is paramount and experience in weathering multiple crises are paramount



V. Shankar

Co-Founder and Chief Executive Officer – Gateway Partners
Tel +971 4518 5900
v.shankar@gatewayfund.net



Huda Al-Lawati

Partner – Gateway Partners
Tel +971 4 518 5901
huda.allawati@gatewayfund.net



David Foster

Partner – Dubai
Tel +971 4 426 7171
david.foster@allenovery.com



Kamar Jaffer

Counsel – Dubai
Tel +9714 426 7163
kamar.jaffer@allenovery.com

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