

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**UNCTAD**



# Private Equity Activity, Growth, and Performance in Morocco - Report 2011



Association Marocaine des Investisseurs en Capital

In collaboration with



Fidaroc

**Grant Thornton**



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# Acronyms and Terms



<b>AFIC</b>	The French Private Equity Association
<b>AMDI</b>	The Moroccan Investment Development Authority
<b>AMIC</b>	The Moroccan Venture Capital Association
<b>AMMC</b>	The Moroccan Capital Markets Authority (ex-CDVM)
<b>BVCA</b>	British Venture Capital Association
<b>CFC</b>	Casa Finance City
<b>Carried Interest</b>	Portion of capital gains and returns allocated to team of management company as reward for exceeding base return objectives.
<b>CDVM</b>	The Moroccan Capital Markets Authority
<b>EVCA</b>	European Venture Capital Association
<b>FCPR</b>	Fonds Commun de Placement en Capital Risque, Venture Capital mutual funds
<b>FMO</b>	Netherlands Development Finance Bank
<b>GP</b>	General Partner
<b>IFC</b>	International Finance Company
<b>IRR</b>	Internal Rate of Return
<b>LBO</b>	Leveraged Buy Out
<b>LLC</b>	Limited Liability Company
<b>LP</b>	Limited Partnership
<b>OPCR</b>	Legal vehicle specific to Private Equity funds in Morocco created by Law 41-05
<b>OPCVM</b>	Organisme de Placement Collectif en Valeurs Mobilières, undertaking for collective investment in transferable securities
<b>PROPARCO</b>	Promotion et Participation pour la Coopération économique, the French development finance arm.
<b>SA</b>	Société Anonyme, roughly equivalent to a corporation
<b>SARL</b>	Société à Responsabilité Limitée, roughly equivalent to Private Limited Liability Corporation
<b>SAS</b>	Société par Actions Simplifiée, roughly equivalent to a Limited Liability Corporation (LLC)
<b>SCA</b>	Société en Commandite par Actions, roughly equivalent to a limited share partnership
<b>SCR</b>	Société de Capital Risque
<b>SICAV</b>	Société d'Investissement à Capital Variable
<b>UNCTAD</b>	United Nations Conference for Trade & Development

# Foreword



This guide was prepared by the United Nations Conference on Trade and Development (UNCTAD) as part of a technical assistance project in Morocco implemented by the Insurance Program and in cooperation with the Moroccan Private Equity association (AMIC).

UNCTAD aims to help improve the growth and development of financial and insurance sectors in the developing countries and, in particular, African countries. It aims to create a favorable business environment in particular by promoting the insurance industry for its work on strengthening financial markets in developing countries and the allocation of risk.

AMIC is an independent professional association which aims to unite, represent and promote the profession of private equity to institutional investors, entrepreneurs and public authorities.

To achieve this, AMIC provides training, data collection, statistical analyses and conducts market research that it distributes to its members and investors. AMIC has also established a Code of Ethics to promote compliance with current regulations and best practice among its members.

In 2008, financial support from the Spanish Government to UNCTAD's Insurance Program allowed for the implementation of a technical assistance project aimed at building capacity and improving Moroccan SMEs' access to insurance to help develop their competitiveness and enhance their development.

The draft of this guide was primarily directed by Mrs. Stephanie Billard of Fidaroc Grant Thornton (Casablanca), in cooperation with the Insurance Program team, headed by Mr. Dezider Stefunko, including (in alphabetical order), G. Chapelier, A. Chatillon, M. Stanovic, and under the overall direction of T. Krylova.

This project was enhanced by the insightful comments and remarks of F. Giraudon, from AMIC.

Administrative support was provided by N. Eulaerts.

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We would like to especially thank Spain for its financial support.

# Introduction



The Moroccan economy is growing rapidly due to increased openness to global markets, and the development of government strategies to support the development of agriculture, industry and services.

In the 2000s, Morocco's annual GDP growth rate was 4%. While the financial crisis has slowed the pace of growth in 2009 and 2010, international economic recovery is expected to boost the Moroccan economy and accelerate the pace of investment in strategic sectors of the economy.

Institutional investors aggregate and manage household savings, contributing significantly to the growth of developed and emerging economies growth, given their lead role in international capital markets.

Internationally, the funds allocated by institutional investors to private equity bring necessary funds for growth to listed and unlisted companies. Investors then play an important role in raising entrepreneurs awareness of about good governance. Since the 1990s, the volume of savings managed by institutional investors has increased significantly, almost tripling by end of 2006, to about 62,000 billion US dollars worldwide. An increasing share of these resources is allocated to the private equity market.

For institutional investors, the private equity industry presents a particular interest because of its characteristics and performance. This asset class is involved throughout the life of a business (from start-up, to growth, to management transmission) and promotes the rules of good governance for transparent, rigorous and efficient corporate investment.

In Morocco, private equity is still new and quite dependent on changing national and international economic environments. Foreign investors share in funds raised for investment in Moroccan companies has risen sharply, and now stands at over 57%, reflecting the growing role of this dynamic industry in developing small and medium enterprises (SMEs) and in establishing and developing modern integrated infrastructure. In addition, a significant proportion of companies created in the 1970s will be facing generational transmission problems. These companies are typically family-owned and present growth potential for Private Equity investors. Other factors supporting growth include public support to innovation and the development of an international financial center, Casablanca Finance City.

Developed at the request of the Moroccan Private Equity association (AMIC), this guide is addressed to local and international institutional investors interested in the Moroccan Private Equity market. It contains practical principles and rules to better understand the industry in Morocco and aims to facilitate understanding of Private Equity operations and thus help institutional investors better understand their investments.

\* Institutional investors are organizations which can raise significant funds and invest in firms, real estate or other asset classes. Institutional investors are generally defined as banks, insurance companies, mutual insurance companies, pension funds, investment companies, mutual retirement funds and general mutual funds and other mutual or collective investment vehicles. Institutional investors are often regarded as long-term shareholders.

# Private Equity Overview



## ■ Definition

The definition of private equity most commonly used in Europe is :

«A financial investment in unlisted companies, for a fixed period of time, in the form of equity, convertible or non-convertible debt securities, as well as shareholder loans. Private equity is a fundamental support to unlisted companies throughout their existence. It funds startup, growth, management or other acquisition of the company».

The terms «Venture Capital» and «Private Equity» are sometimes used interchangeably. Although any equity investment in a company carries significant risk, it seems more judicious to distinguish between the two. The term «Private Equity» will be used as a generic term while the term «Venture Capital» will be reserved for the financing of start-up firms.

## ■ Different Investment Stages

Private Equity can be broken out in several categories, tied to the stage of the financed enterprise's development :

- Seed Capital
- Venture Capital
- Growth Capital
- Buyout Capital
- Turnaround Capital

### Seed Capital

Seed capital investors provide capital along with access to their networks and experience to support entrepreneurial projects that are still in planning or in research and development stages.

### Venture Capital

Investors provide equity or quasi-equity funding to start-up enterprises. Depending on the maturity of the enterprise to be financed, venture capital may be sub-divided as follows :

- Start-up stage, financing the initial start-up of the business
- Post-Start-up after the company has already completed product development and needs capital to start production and marketing

# Private Equity Overview

## Growth or Expansion Capital

Provides funding equity or quasi-equity, usually for minority stakes, to finance the growth or expansion of a business or to buy-back other shareholder positions. At this stage, the partner company is generally a mature firm that has reached break-even profitability and has significant growth prospects.

This aims to support the entrepreneur by financing organic and external growth with the objective of creating value and liquidity in the medium term.

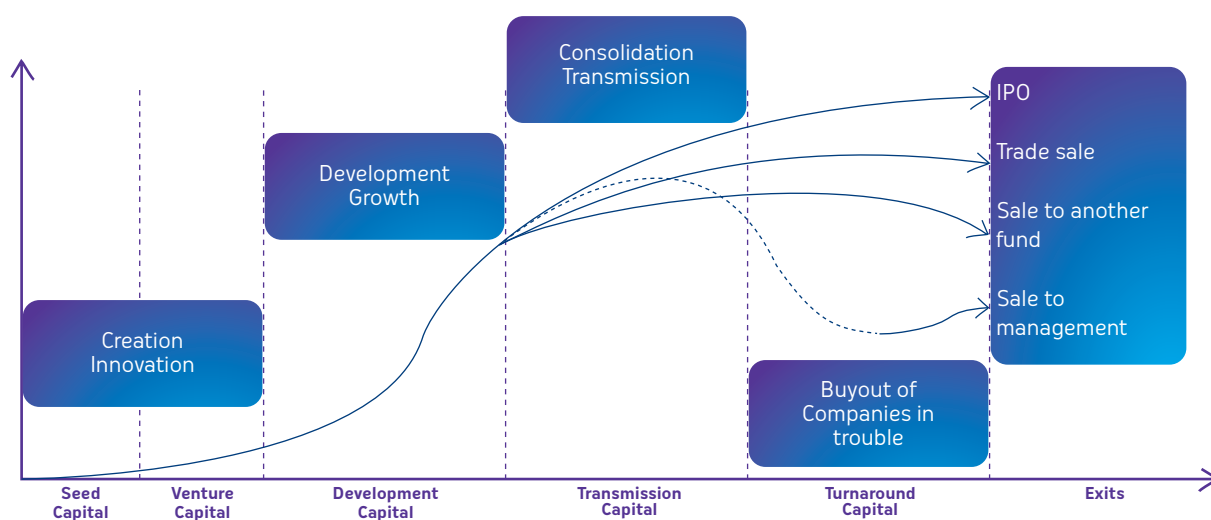
## Buy Out

Buy-out operations acquire a majority stake in a mature company with a combination of equity and bank financing (structured debt). The best known operations are those using leverage, LBOs (Leveraged Buy-Outs). They allow a manager associated with a private equity fund to pass on his business or, more generally, to prepare his estate by selling his company in several steps.

## Turnaround

Turnaround consists of equity or quasi equity financing to companies in difficulty. With this financing, the investor gives firm managers the opportunity and means to implement corrective measures to enable a return to profitability.

Private Equity over the Life Cycle of an Enterprise



Source : Federal Finance, filiale du Crédit Mutuel

Each investment stage corresponds to an enterprise life-cycle stage. Whatever the stage of investment, different exit possibilities exist.

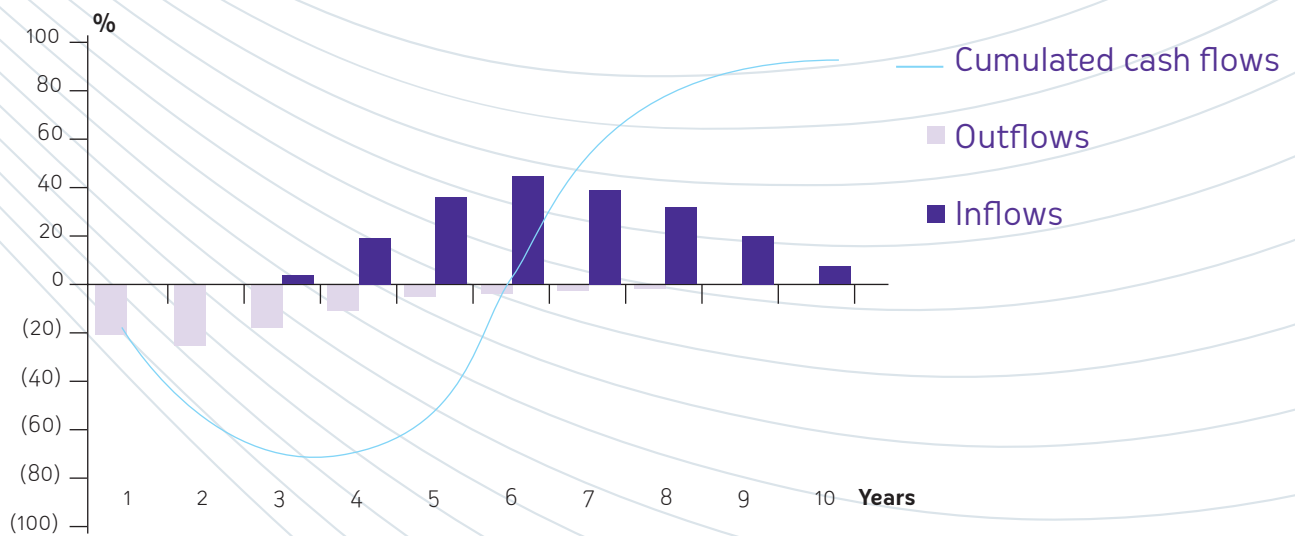


## Life Cycle of a Private Equity Fund

The life cycle of a typical private equity fund has three phases:

- The **investment phase**, from the first to the fourth or fifth year, is the period during which the capital is called and invested in target companies.
- The **development phase**, from the third to eighth year, in which initial investments mature and first exits are realized. Investors begin to have capital repaid and some follow-on investments are made.
- The **exit phase**, from the eighth year forward, during which the last investments are exited.

Based on these phases, the net asset value of investments follows a J-curve and peaks at the end of the life of the fund. In the early years, the curve shows low investment fund returns during the investment phase. Only in the third and fourth year does the curve rebound and the fund becomes profitable.



Source : EVCA Why and How to Invest in Private Equity

The cash flow is the difference of revenues (receipts) and expenditures (disbursements) generated by the activity of an investment fund at time T.

The cumulative cash flows calculate this difference over time.

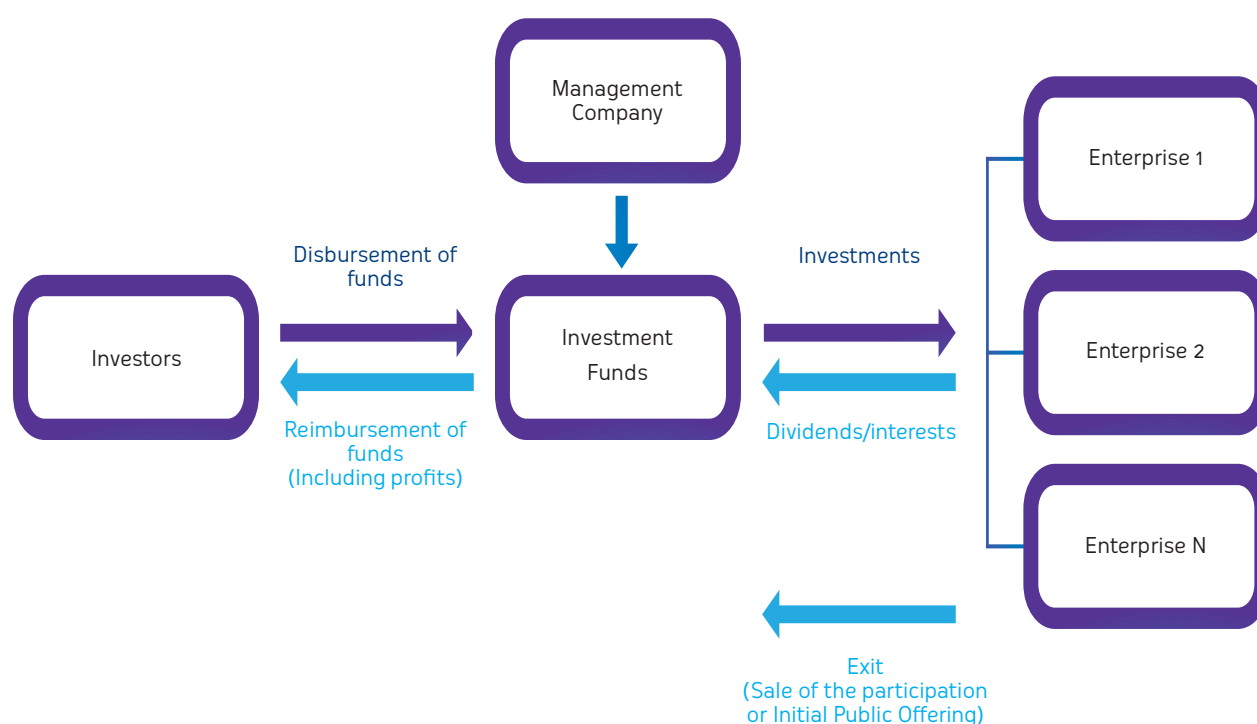
### ■ Amounts raised and amounts invested

**Capital raised** reflects engagements by institutional investors to pay into investment funds. These financial contributions are generally allocated for a 10 to 12 year period, representing the lifespan of the funds. Portions of the commitments are called as needed by the management company as they identify investment opportunities.

Finally, the amount of **invested funds** represents funds invested by the investment fund into enterprises.

### ■ A Typical Private Equity Investment

#### Idealized Private Equity Investment



Source : AMIC

### ■ Private Equity Performance

Two key indicators measure performance:

- The Internal Rate of Return (IRR)
- The Multiple

The IRR provides the results in relation with time. The Multiple reflects the return in absolute terms.

### Internal Rate of Return (IRR)

Measuring performance by IRR allows an evaluation of return, on investment, by investment and by investment fund.

### Gross IRR

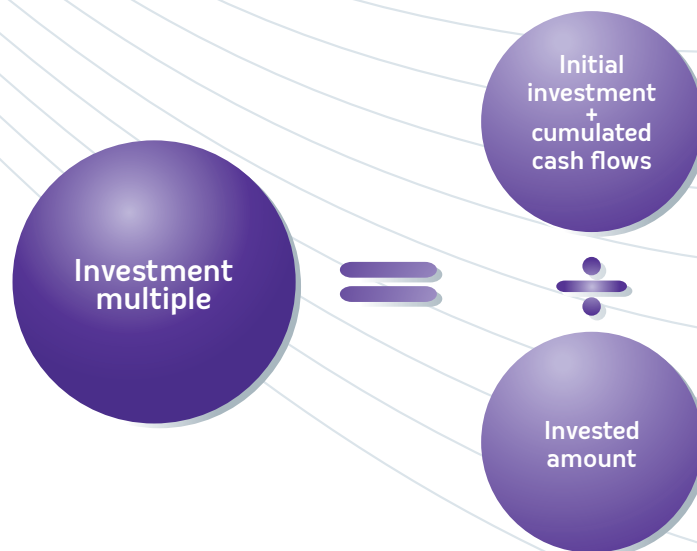
The gross IRR is based on realized or estimated performance for investments in the portfolio based on funds received and funds disbursed. The IRR is calculated on the present value of investments.

### Net IRR

The net IRR takes into account all realized cash flows, including fixed and variable management fees (straight management fees and carried interest) as well as taxes on the Fund, except those incorporated as OPCR.

### Multiple

The investment multiple is calculated by dividing the sale or exit value of an investment (plus any accumulated cash payments) by its initial acquisition value. The Multiple calculated across all investments in the portfolio provides a multiple for all the fund's investments (in absolute value).



### ■ Comparison with other asset classes

In building an investment portfolio, some institutional investors believe that private equity funds' long-term returns should be more attractive than investments in listed shares and bonds. Several studies (JP Morgan, Morgan Stanley, HSBC, etc.) have confirmed the long-term performance of this asset class.

Equity investment in unlisted companies allows institutional investors to be less exposed to listed market fluctuations. The investment is thus less vulnerable to cyclical changes.

To date, no reference Private Equity benchmark permitting a direct performance comparison with other asset classes, based on the same criteria, exists. It is fair to say that the IRR is the Private Equity reference benchmark.

# The Moroccan Private Equity Market



## ■ Industry Overview

### Evolution

Developed relatively recently, Private Equity appeared in Morocco in the early 90s, taking form in 1993 with the creation of Moussahama, the industry pioneer and a now subsidiary of “Banque Centrale Populaire”.

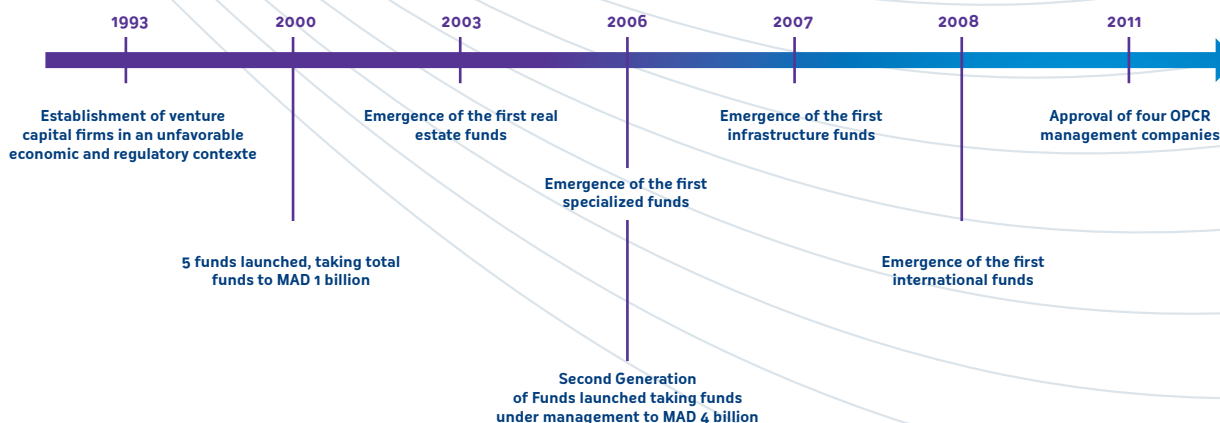
For a long period, Moussahama was the only player in the market. Other investment funds only emerged after 2000, which also saw the creation of AMIC, founded at the initiative of four operators: Capital Invest, Casablanca Finance Capital, Moussahama and Upline Securities. Today, the majority of Moroccan private equity investors are AMIC members.

The sector’s dynamism led the State to actively engage in developing Private Equity through the “Caisse de Depot et de Gestion (CDG).” With its dual role as a financial investor, seeking the best performance for funds it manages, and an institution charged with supporting the development and modernization of the local economy, the CDG has made Private Equity an important focus of its investment policy.

The banks have also been seduced by the potential for development of this field of business and have created their own private equity funds.

In less than 15 years, the cumulative amounts raised have increased from MAD 400 million to more than MAD 7 billion at the end of 2010.

### Private Equity Development in Morocco (1993-2011)



From 1993 to 1999, the funds under management totaled MAD 400 million.. reached MAD 1 billion in 2000... and continue to grow to settle at around MAD 8 billion in 2011

Source : AMIC

## ■ Principal Actors

- **Institutional investors** holding long-term resources and managing assets for the purpose of growing them.

In Morocco, these are mainly :

- o Financial institutions such as banks (Attijariwafa Bank, BCP, BMCE, NATEXIS, CIC), Asset Management Companies (CDG Capital, BMCE Capital), and insurance companies (CNIA, Wafa Assurance, AXA)
- o International Development Finance Institutions such as EIB, PROPARCO, IFC, FMO and others
- o Private holding companies (Mutandis, SNI)
- o Asset managers like Caisses de dépôt (CDC)
- o Other financial institutions such as retirement funds (CIMR, CMR) and mutual insurance groups (MAMDA MCMA, CNOPS), Funds of Funds and investment companies (Cf. Annex I)

- **Management companies performing** intermediation. They research target companies, study target companies plans and invest, where appropriate, funds entrusted to them by investors. Their role is essential because of this type of financing's high level of risk, which requires extensive preliminary due diligence as well as advanced skills and expertise.

In Morocco at the end of 2010, there were 20 management companies (Cf. Annex I).

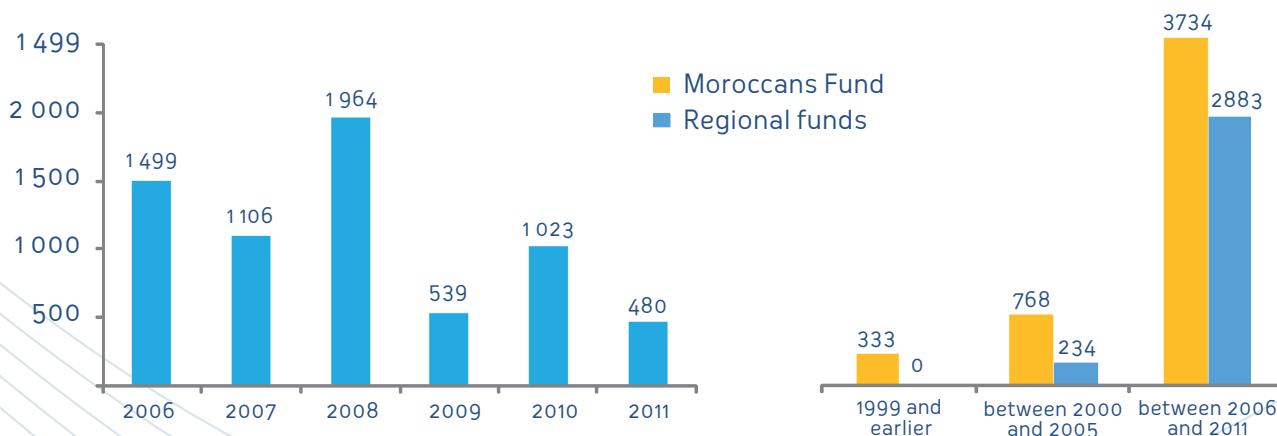
- **Entrepreneurs** are business leaders looking for funding to ensure the growth of their businesses.
- **Buyers** are new entrants after the exit of Private Equity investors. They may be industrial investors, the enterprise's managers, or financial market investors in the case of an IPO or even one or more other specialized investment fund(s) in another Private Equity segment.

## ■ Market Size

Private Equity's contribution to the Moroccan economy is still limited. However, the industry's development potential is very significant, and can reach or exceed, in the medium term, MAD 10 billion given local and regional economic growth on one hand, and investment funds engagement in the different enterprise life cycle stages on the other hand. In an economic environment where equity-financing needs are becoming more important, Private Equity serves as a conduit between public savings and financing of economic growth.

At the end of 2011, the cumulative amount of capital raised totaled MAD 8 billion, of which nearly 3 billion was raised by regional funds targeting Africa and the Maghreb.

**Capital Raised by year\* (in MAD million)**



Source : AMIC

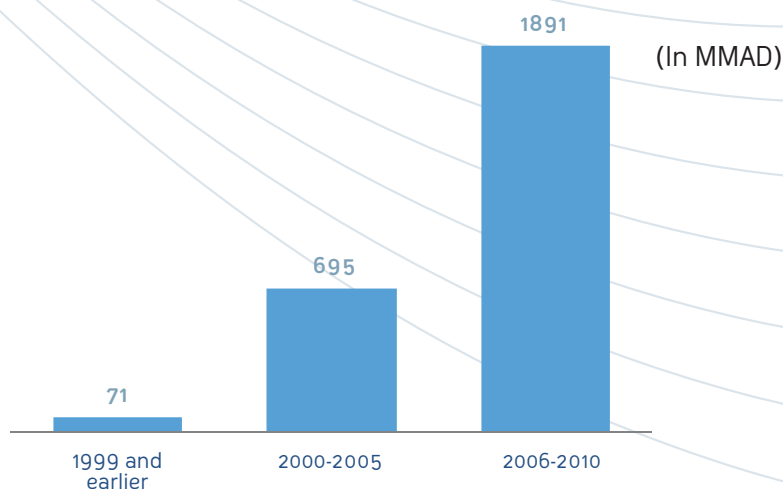
\*Note several correctives compared to previous reports: reintegration of MIF, downward revision of Morocco's estimated share for certain regional funds

Since 2006, regional funds have emerged, with headquarters in Morocco, but targeting investment in not only Morocco, but also the Maghreb and/or Africa. This graph reflects only those amounts raised by these investment funds that are dedicated to Morocco.

After a decline in 2009, due to the international crisis and a good recovery of Private Equity activity in 2010, fundraising dropped to MAD 480 million in 2011.

The cumulative amount invested at the end of 2011 reached MAD 3,3 billion.

**Evolution of invested funds**



Source : AMIC

While the year 2010 saw strong recovery in investment with **MAD 665 million** invested, a decline to MAD 344 million is recorded in 2011

## The Moroccan Private Equity Market

The difference between capital raised and invested (MAD 3.9 billion\*) is due to :

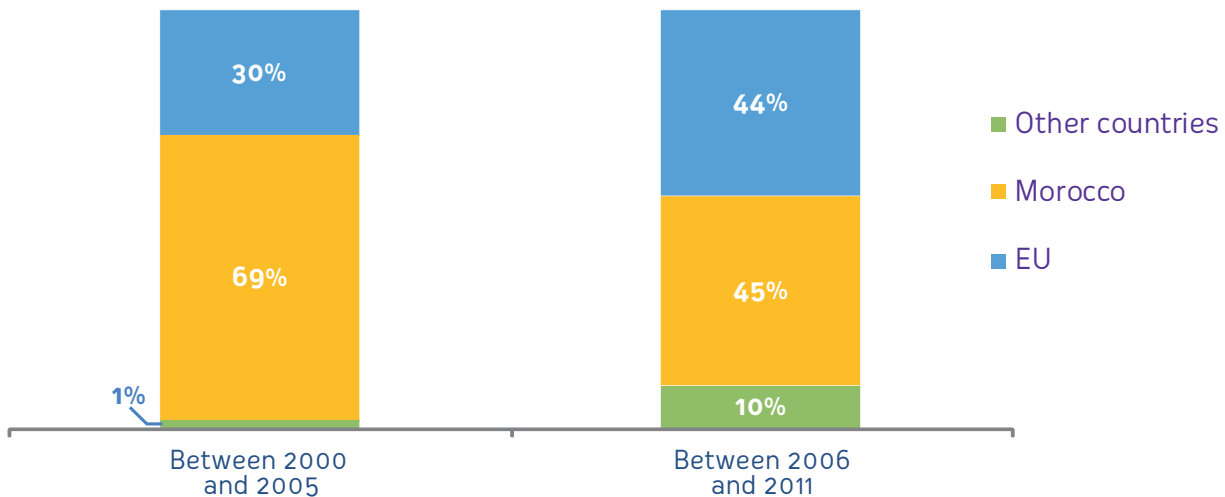
- Funds raised are invested over approximately a five year period; a comparison thus must be made with an approximate lag of 5 years
- A significant portion of capital raised by regional funds is not exclusively dedicated to Morocco
- The effect of exchange rate fluctuations
- Allocation of a portion of funds raised for reinvestment in invested companies.

\* after removal of amounts raised by funds in the exit phase and removal of investments made by funds in the investment phase

### Market Specificities

- The share held by financial institutions, including insurance companies, increased in terms of capital raised since 2006
- The share of foreign investors has risen sharply since 2006, now representing 57% of funds raised.

Distribution of raised funds by investors nationality



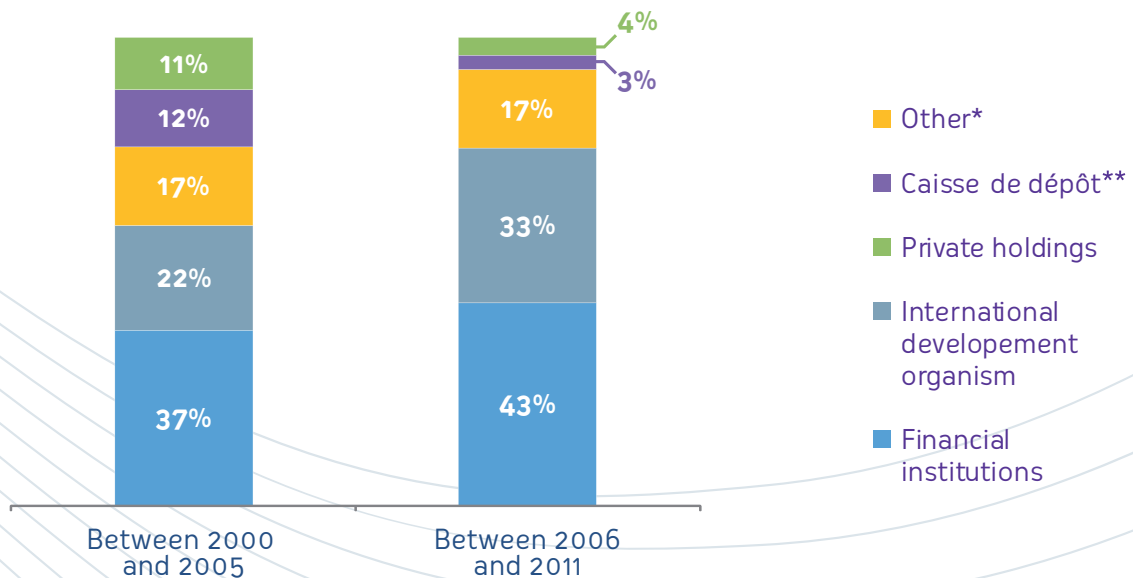
Source : AMIC

The professionalization of the sector and continued economic growth and policy stability have significantly improved the Morocco's attractiveness to foreign investors who account for over 50% of funds raised. The European Union has the lead followed by countries such as Kuwait, the UAE, Saudi Arabia, the US and countries of the MENA region.



- The share of financial institutions (including insurance companies) and of international development institutions has risen sharply since 2006 and represents more than two-thirds of investors

**Capital raised by Investor Type**



\*Other : local governmental entities, individuals, Moroccan State, offices, pension funds, funds of funds, investment companies

\*\*Caisse de dépôt : state pension/asset management entity

Source : AMIC

- Regions and sectors invested by funds has gradually become more diversified.
- Sector funds, in particular in agriculture, agribusiness, health and ITC have expanded.
- The average time invested in an enterprise, at the end of 2010, was four and a half years.
- The governance and organization of invested companies improved significantly following an investment fund's entry into their capital.

## ■ Investment Vehicles

The legal structures adopted by investment funds fall into the following two categories:

- Classic vehicles
- OPCR (Organisms de Placement en Capital Risque)

### Classic Vehicles

Legal forms under Moroccan law :

- Société Anonyme (SA) : Law n° 17-95 and 20-05, roughly equivalent to a Limited Company
- Société par Actions Simplifiées (SAS) : Law 17-95 (articles 425 to 436), roughly equivalent to a Delaware LLC
- Société en Commandite par Actions (SCA) : Law n° 5-96 (chapter II of part III), roughly equivalent to Company Limited by Shares

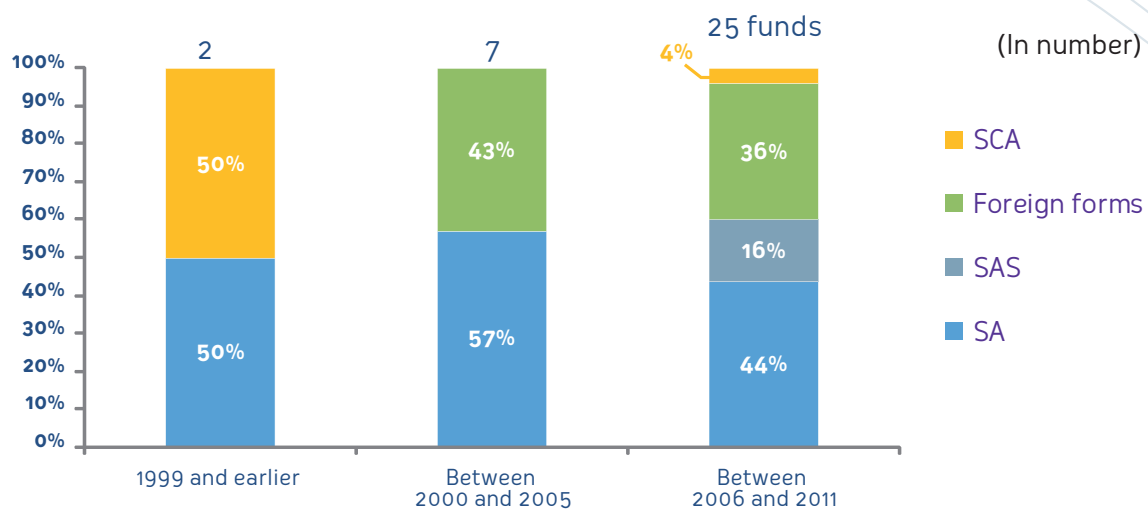
## The Moroccan Private Equity Market

### Foreign legal forms :

- Limited Partnership : Investment structure, tax transparent, principally used by Anglo-Saxon managers. The Fund is managed by an independent management company called the General Partner (GP).
- Limited Liability Company (LLC. Roughly equivalent to SARL)

Foreign vehicles are based on the laws of their country of origin.

### Evolution of fund legal forms in Morocco



SA : Société Anonyme, roughly equivalent to a corporation

SCA : Société en Commandite par Actions, roughly equivalent to a limited share partnership

SAS : Société par Actions Simplifiée, roughly equivalent to a limited liability company (LLC)

OPCR : A new legal vehicle for private equity funds in Morocco, created by Law 41-05

Source : AMIC

Since 2006, the legal forms of funds have diversified : SA, foreign form for funds domiciled outside Morocco, SAS and SCA. No funds have yet been established as an OPCR, even though several management companies have received approval

### OPCR Regime

Law 41-05 on OPCR, issued in 2006, established two vehicles specific to Private Equity:

- Venture Capital Corporation (Société de Capital Risque, SCR)
- Mutual Risk Investment Fund (Fonds Commun de Placement à Risque, FCPR)

### Law 41-05 Definitions

OPCR: «Mutual Risk Investment Organization,» an entity engaged in the venture capital business as defined by the law 41-05. OPCRs include venture capital companies (SCR) and funds (FCPR).

FCPR: are mutually owned assets, as referred to in Article 4 of this law. They have no legal personality. Their parts are issued and sold under the conditions determined by management rules. The parts issued by the FCPR are treated as securities.

SCR: are joint stock companies, governed by Law No. 17-95 provisions concerning limited companies or by those of Law No. 5-96 on partnerships, limited partnerships, limited partnership by shares, limited liability companies and joint ventures, subject to special provisions of this Law.

Law 41-05 established a licensing procedure for management companies and funds managed by them. To date, four management companies have been granted approval by the market regulator, the Conseil Déontologique des Valeurs Mobilières (CDVM) as OPCR managers: CDG Capital Private Equity, Private Equity Initiatives, Upline Investments, and Valoris Capital.

The OPCR legal framework still presents several significant constraints (regulatory investment ratios, prudential requirements, etc.). As a result, as of the end of 2010, no Moroccan investment fund has been organized as an OPCR, despite the tax transparency accorded by Law 41-05. In waiting for a more flexible legal framework, fund managers continue to opt for traditional legal forms (SA, SAS, SCA), which, once established, do not benefit from any particular tax advantages.

A draft amendment to Law 41-05 on OPCRs, developed in consultation with the Moroccan Treasury (the DTFE), the CDVM and AMIC should soon be presented to Parliament. The amendment of this Law should remove the investment ratios instituted by the Finances Law of 2011 and permit thusly a recourse to investment vehicles guaranteeing tax transparency.

### Main OPCR and SCR Conditions under Law No.41-05

#### OPCR Conditions:

- At least 50% of assets invested in SMEs
- Minimum investment period of at least 3 years in SMEs except declaration to the CDVM that the OPCR is in its exit period
- Continuous supervision of OPCR and its associated management company by the CDVM, to ensure compliance with laws and regulations
- Ministry of Finance right to examine OPCR establishment conditions

#### Conditions for OPCR management companies :

- Licensing of any management company by Minister of Finance decree, on advice of the CDVM
- Companies must be exclusively engaged in the organization and management of one or more OPCR as well as conducting related transactions
- Fully paid up capital at constitution, of at least MAD 1 million
- Guarantees as to sufficient means to effectively fulfill all of their missions
- Management of OPCR for the exclusive interest of the unit holders and shareholders

## Investor Taxation

### Comparison of tax operations performed by vehicles their investment according to legal form

Investment Vehicle	Classical Regime			OPCR Regime	
	SA	SAS	LP	FCPR	SCR
Registration fees on investing equity capital	3%	3%	3%	3%	3%
Registration fees on shares acquisition	3%	3%	3%	3%	3%
Registration fees on capital changes *	1%	1%	1%	0%	0%
Contributions to current accounts	3,44%	3,44%	3,44%	3,44%	3,44%
Dividends received or credited to current account **	0%	0%	0%	0%	0%
Capital gain from sale of shares ****	30%	30%	30%	0%***	0%***

\*CGI Title IV-Art.129-IV-11°

\*\*CGI Title I-Art.6-I-1°

\*\*\*CGI Title I-Art 6-I-A-18°

\*\*\*\* 15% for companies achieving a turnover less or equal to 3 million MAD - Art.19-11-D

Changes from the classical regime

This synthesis was performed with due care and attention based on the Official Bulletin, but readers should refer to official and appropriate documentation.

## Performance in Morocco

It is important to note that the Private Equity industry is still young. No investment fund present in Morocco has yet to be fully exited.

When looking at the IRR realized by these investment funds, current analysis is based on the IRR recorded for each exit. Thus, on all outputs at the end of 2010 (33 exits\*), the overall weighted average gross IRR is 17%. The strongest performances were recorded for buyout stage investments. It should be stressed that this is an IRR reported per exit and not a final fund IRR. This IRR is thus difficult to compare with data from other markets.

To value unlisted assets in the portfolio, AMIC invites its members to comply with the guidance of the International Private Equity and Venture Capital Valuation Guidelines, developed jointly in 2005 by AFIC (French Private Equity Association), the BVCA (British Venture Capital Association) and EVCA (European Venture Capital Association) and endorsed by more than forty national associations, including AMIC.

\* Excluding incomplete exits where residual investments remaining and for investments held for less than 1 year.

# Why Invest in Morocco



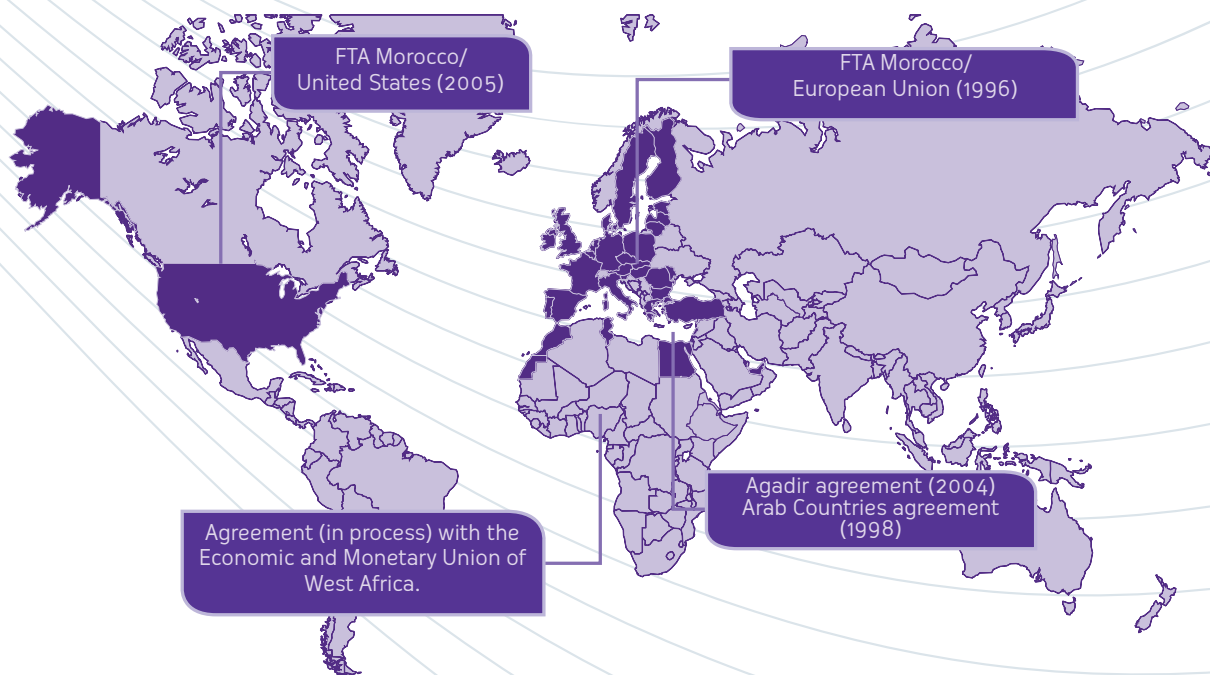
Morocco has a strategic location relative to Europe, America and Africa. Several factors explain the attractiveness of this country in comparison with other countries in the region:

## ■ Strong and stable economic fundamentals

The Moroccan authorities are very focused on maintaining macroeconomic balances of the Kingdom :

- Average annual growth rate of 10% between 2000 and 2009
- Resilience in the face of the crisis
- Maintenance of an inflation rate of around 2% between 2000 and 2009
- Reduction of the debt level: 47% of GDP in 2009
- Growth driven by domestic demand and public investment

## ■ Access to a market of over one billion consumers



Source : AMDI

International Free Trade agreements signed by Morocco with different countries and regions allow investors to access a free market of 55 countries representing a billion consumers and 60% of global GDP.

### ■ Ambitious sectoral strategies

The development of a real partnership between the public and private sectors has enabled the development of a set of sectorial plans aimed at ensuring strong, sustainable and wealth creating economic growth. The sector strategies are characterized by an innovative approach to contracting and public-private partnership that allows the State to refocus on its regulatory role. These plans focus on both modernizing traditional sectors like agriculture, fisheries and mining, and on developing innovative sectors like renewable energy, logistics, automotive, aerospace and services with high value added, where Morocco has real competitive advantages.

### ■ A favorable business environment

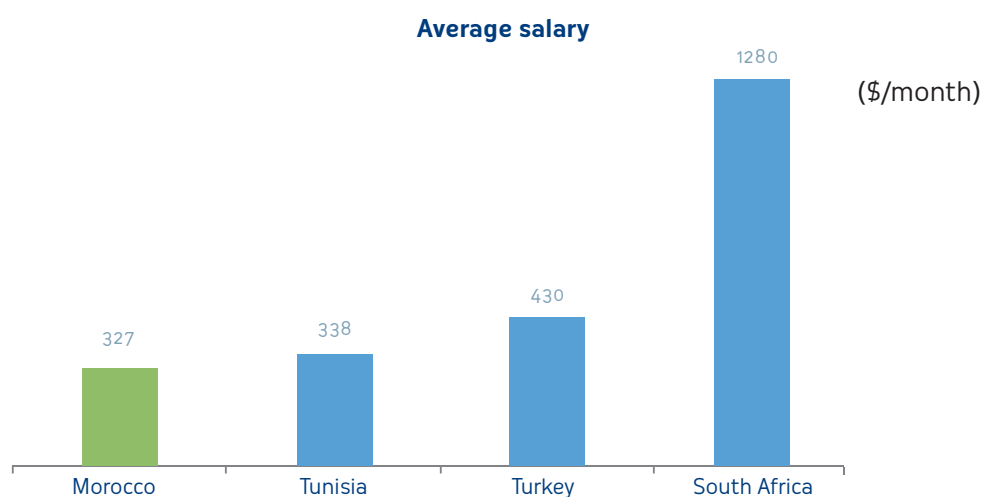
To encourage investment in Morocco, a particular there has been particular focus on improving the business climate. Several actions have been taken to increase competition and transparency, including :

- Simplification of administrative procedures (Project PortNet, Telepayment, etc.).
- Strengthening business law (law on competition and free pricing, law on economic interest groups, law on industrial and intellectual property, etc.).
- Improving regulatory transparency (Anti-money laundering law, etc.).
- Supporting innovation via integrated industrial platforms and clusters development
- Promoting Charter on Corporate Social Responsibility Cost Competitiveness

In the World Bank «Doing Business 2012» rankings, Morocco also advanced to 94th place, a remarkable jump of 21 ranks over the previous year, which also won it the status of best global reformer among the 183 countries in the running. This result, which is the fruit of policies implemented by public authorities, undoubtedly reflects the improving business climate and the attractiveness of the Kingdom for foreign investors.

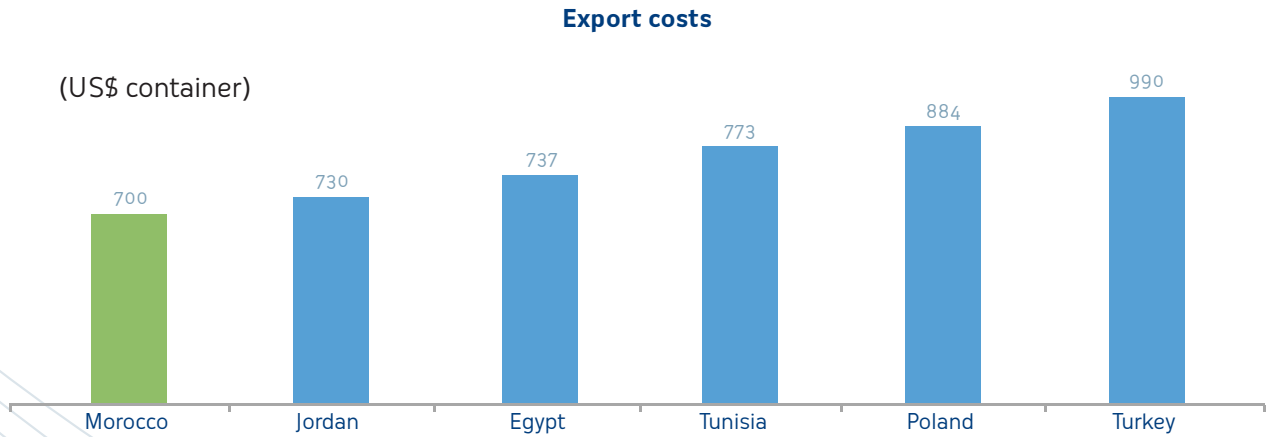
### ■ Cost Competitiveness

Reduced **labor costs**: The average wage in Morocco is \$327 / month, or about ten times less than the average salary in Spain



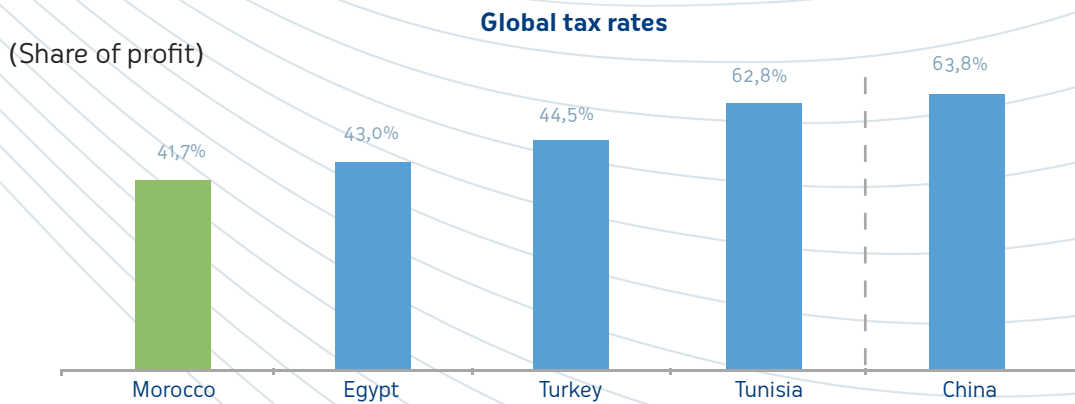
Source : Oxford Economics

Cost **competitive for export**: \$ 700 / container



Source: World dataBank, 2009

Reduced **Tax charges** : Total taxes paid by enterprises represent 42% of their profits, the most competitive rate in the region.



Source : World dataBank, 2009

## ■ International Standard Infrastructure

Morocco launched a series of important projects over the past ten years which has resulted in an infrastructure base up to international standards.

- Highway network of 1500 km
- 15 international airports benefiting from the Open Sky accords
- Tanger Med Port with a global capacity of 3 million containers
- Telecommunications infrastructure up to international norms (97% mobile penetration rate)

## Why Invest in Morocco

### Casablanca Finance City (CFC)

Casablanca Finance City is Casablanca's new financial center, managed by Casablanca Moroccan Financial Board (MFB) and founded in late 2010 under Law No. 44-10 which extends to the CFC measures to ensure both its attractiveness and competitiveness.

The financial center will cover an area of 100 hectares and will contribute up to 7 to 12 billion dirhams to the GDP and create between 35 and 55 000 indirect jobs, according to initial Ministry of Finance estimates.

### Clusters

The national innovation promotion strategy, «Maroc Innovation» has a strategic focus on developing clusters based on synergies between three actors: enterprises, training institutions and Research and Development centers. To date, four clusters have been created in key sectors of the Moroccan economy:

- Numeric Cluster Morocco (Casablanca )
- Microelectronics Cluster (Rabat)
- Electronics Cluster - Mechatronics - Mechanical (Mohammedia)
- Maritime Cluster (Tan Tan)

### ■ Freedom to invest for foreign investors

Foreign investors enjoy the same rights as domestic investors relative to incentives and freedom of establishment. For a number of years now, Morocco has conformed with national treatment and most favored nation (MFN) principles, which provide for equality of treatment between Moroccan and foreign investors. Foreign investors also enjoy complete freedom to repatriate profits, dividends and capital.

A list of double taxation agreements and of investment protection and promotion and protection agreements signed by Morocco is available in UNCTAD's «Investment Guide to Morocco.»(\*)

The Moroccan Investment Development Agency (AMDI) can also provide complementary information for any foreign investor.

Note also that there is no restriction on the percentage of foreign investment in the capital of Moroccan companies.

\* <http://theiguides.org/guides/3237-moroc-web-small.pdf> (p.109)

\*\* <http://www.invest.gov.ma>



# Equity Investment Stages



Over the lifespan of its investment, the institutional investor must consider three key elements for optimizing its portfolio :

- Investment strategy
- Investment type
- Fund manager(s) selection

## ■ Investment Strategy

Developing an investment strategy is the first step in Private Equity and allows the investor to define :

- Asset class weighting in its portfolio
- Profitability objectives
- Investment horizon
- Types of investments (listed, unlisted)
- Investment type (direct, indirect).

### On Investment Strategies...

#### A Moroccan insurance company

«Our investment strategy first begins by an ALM (Asset and Liability Management) analysis. Our engagements vis-à-vis insured parties are thus covered by a given investment portfolio. This approach permits us to define an efficient portfolios curve in a manner to maximize returns within a given level of risk. The optimal portfolio for investments is reviewed annually. On average, over the last three years, Private Equity represented close to 10% of our investment portfolio : 15% of this is attributed to the management companies».

CEO, Insurance Company

#### A Moroccan Bank

«Our strategy is principally developed around growth capital. We do not invest in start-up companies or pre-start-ups. We take minority stakes without truly intervening in the management of the company. Our investments are situated between 10 and 30% of the capital, so as not to exceed a blocking minority position».

Director of Investments, Bank.

## A long-term investment horizon

The average life of an investment fund ranges between 10 and 12 years with an investment holding period in invested companies of, on average in Morocco, of 5 years, followed by an exit phase for the investments. The actual duration of a fund can vary depending on the pace of acquisitions, economic conditions and capabilities of the management team in terms of exiting.

Investing in the long term offers investors the opportunity to cushion cyclical effects tied to sector specificities, economic conditions or fund investment strategies. Depending on business development and investment stage, the holding period of investments may be shorter or longer (for example, the holding period of investments in Venture Capital is shorter than in Growth Capital). This is an important point that investors should consider in their strategy. They should select funds based on their investment policy priorities.

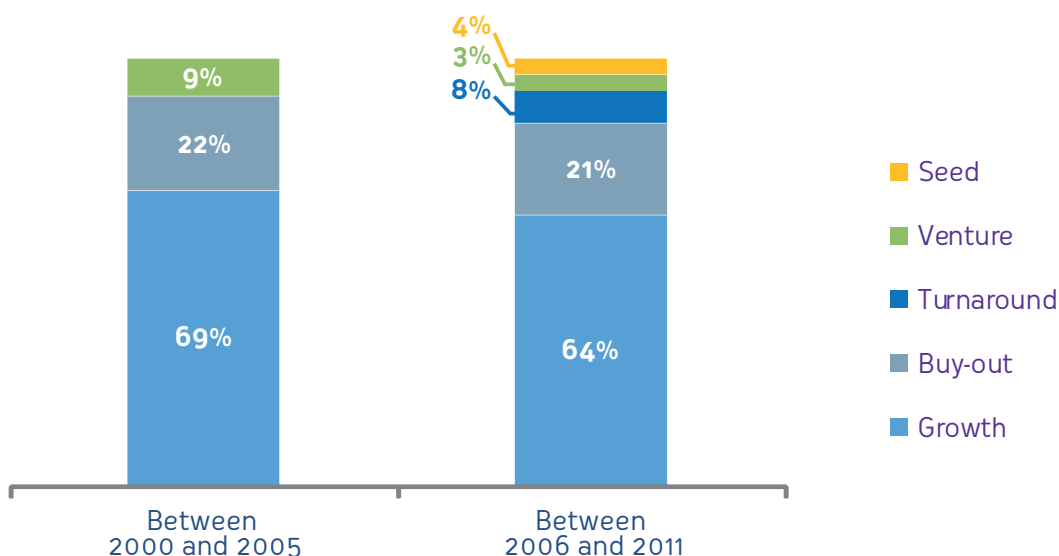
## Equity Investment Stages

### Investment Diversification

Private Equity covers businesses' financing needs regardless of its stage of development. This specificity is an asset that allows institutional investors to diversify their commitments within Private Equity asset class and to reduce the risk taken. Furthermore, diversification can also be achieved by investing in different sectors or varied geographical areas.

Long devoted almost exclusively to growth stage companies, Private Equity in Morocco has begun to diversify and to specialize in the sectors and development stages of invested companies.

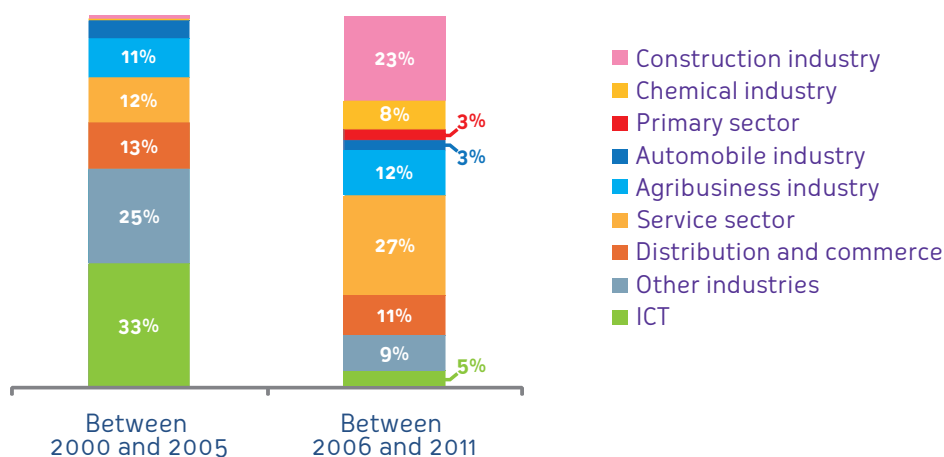
Invested companies by stage



Source : AMIC

Since 2006, investments in seed capital and turnaround have increased. The experience and specialization of certain companies have allowed the diversification of investment operations. Moroccan companies also gradually became open to this type of financing.

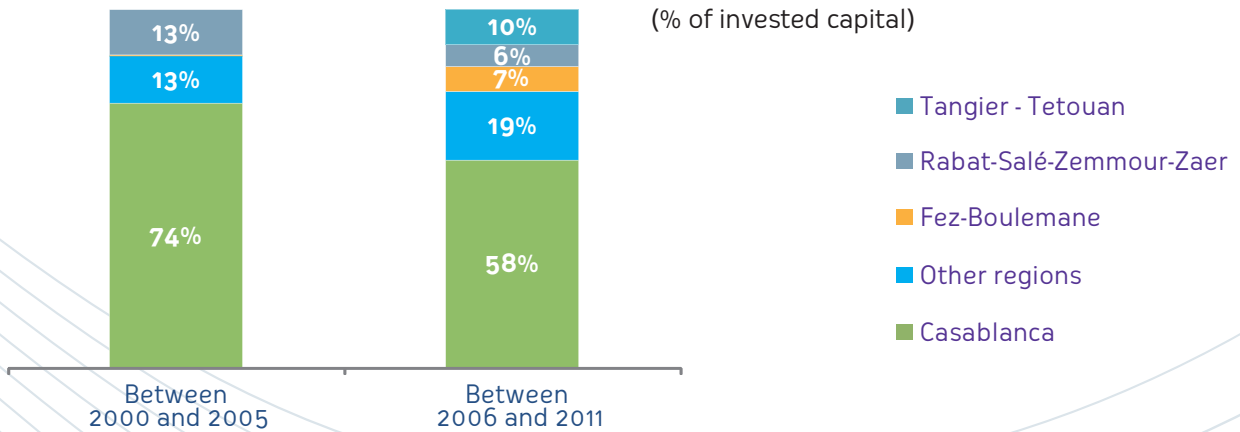
Investment by sector



Source : AMIC

Since 2006, the services, building and construction and food processing sectors have boomed in terms of investment. This evolution reflects these sectors dynamism, which are driving economic growth in Morocco.

### Location of invested firms



Source : AMIC

The majority of invested companies are in the Greater Casablanca region, principally because it is the country's main economic hub. However, since 2006, there is increasing investment in new areas outside Casablanca especially Fez, Tangier, Rabat and other regions such as Oriental, Marrakech-Tensift-Al Haouz or Chaouia-Ouardigha. With the government's regionalization process, that was announced in 2010, regional investment will increase. Regionalization foresees greater decentralization of authorities to regions, which will have more flexibility to manage their resources and public affairs. This process should also allow a better distribution of wealth in the Kingdom. New regional and local industries should be energized in order to promote the attractiveness of regions for both Moroccan and foreign investors.

## Investment Approaches

Based on its objectives and constraints, institutional investors must decide between three investment approaches, each with different advantages and disadvantages.

Institutional investors can invest :

- Directly in unlisted companies
- Through an investment fund managed by a management company
- Through a fund of funds managed by a management company of fund of funds.

### Direct Investment

In direct investment, there is no interface between the institutional investor and the unlisted invested company.

This approach has some advantages, but requires solid experience in investment by the investor and his team in Private Equity, a substantial fund allocation and a significant and quality deal flow.

## Equity Investment Stages

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Full control over the investment and freedom to guide the investment strategy</li> <li>▪ Direct access to unlisted companies which saves on management fees</li> </ul>	<ul style="list-style-type: none"> <li>▪ Full liability exposure of the investor, who is exposed directly to each investment's total risk</li> <li>▪ The need for substantial funds in order to achieve sufficient investment diversification</li> <li>▪ The need for an internal, experienced management team with highly specialized experience in negotiation, investment design, oversight of firms and investments and different exits foreseen</li> <li>▪ The need for significant deal flow, both in quality and quantity, in order to have enough investment opportunities to diversify risk.</li> </ul>

## Funds Approach

The funds approach consists of a selection of investment funds in which institutional investors are involved, along with other investors. Management companies then invest stakes on behalf of the fund.

Although this approach also has some drawbacks, it allows investors to delegate responsibilities and reduce risk concentration.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Institutional investors can choose the investment funds according to their investment strategy</li> <li>▪ Using several different management companies can expand investment opportunities scope/</li> <li>▪ Investment funds are accountable directly to institutional investors</li> <li>▪ Many fund managers take part in the board committees of the enterprises in which they invest, to help in their development</li> <li>▪ Management companies have acquired a significant level of expertise in Private Equity</li> </ul>	<ul style="list-style-type: none"> <li>▪ The need for an internal team responsible for selecting funds, monitoring relationships with managers, etc.</li> <li>▪ Need to allocate resources to a relatively large team responsible for managing relationships with fund managers</li> <li>▪ Management fees</li> </ul>

### Funds of Funds Approach

Investment via Funds of Funds is made by a selection of fund managers who then select investment funds in which to invest.

This approach is ideal for institutional investors wishing to invest capital, but have neither an in-house team dedicated to this job nor sufficient funds to diversify their investments. However, this approach has drawbacks, in terms of cost and oversight, due to the reliance on an additional intermediary.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Access to a large portfolio of companies, thusly providing good risk diversification</li> <li>▪ Expertise and understanding of Private Equity fund managers.</li> <li>▪ Opportunity to engage in Private Equity without having to invest directly or dedicate an internal team</li> <li>▪ Less demanding, since the investor has only one contact point</li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional costs associated with two levels of intermediation</li> <li>▪ Greater distance from the Private Equity market</li> <li>▪ Investment period is slightly longer than the Funds approach</li> </ul>

### Investment Approach Importance for a Development Finance Institution active in Morocco

«The role of our institution in Morocco is to offer a complementarity relative to the financial sector where the Moroccan market doesn't completely meet the financing needs of enterprises. As such, we do not invest in the stock exchange, as the private sector is itself ensuring that market. Our strategy is to focus on unlisted investment, largely by means of credits, but also by private equity investment :

Private equity operations are executed in two fashions

- We dedicate a bit more than half of invested capital to an approach via investment funds aimed at SMEs.
- The other approach is by direct equity investment in targeted companies.

There are several potential reasons for this:

- o Either the investment funds cannot themselves alone take on the larger investment deals of certain SMEs, and we thusly co-invest with them.
- o Or we directly invest in targets that are not targeted by traditional investment funds. For example, in investments with long-term potential profitability but with risk profiles a bit different from normal or as well in innovative sectors such as in securitization management companies. We can also accompany certain large international firms that would like to invest in Morocco, but do not have local partners. Finally, we can also play the role of an infrastructure fund for certain structural projects.»

Head of Casablanca Office, Development Finance Institution

### ■ Choice of Fund Managers

When the institutional investor decides to adopt the Funds approach, it selects a management company based on a precise set of criteria :

- The **«track record»** of the management team whose performance is compared to that of teams with equivalent profiles. At this stage, the investor studies, in particular, the team's references, the IRRs, the number of operations executed, the sized of invested firms, the duration of investments.
- The **ability** of teams **to create added value** in portfolio companies, in the past, in the present and in the future. The investor carefully studies, among other aspects, realized or unrealized capital gains and the profiles and experience of the managers who are met on several occasions in order to form an opinion.
- The **ability** of teams **to identify investment opportunities** is evaluated on the basis of operations under negotiation, and on the manager's network, etc.
- **Ethics and rigorous decision-making processes** are assessed in light of the existence of a good conduct code and an investment procedures manual, as well as the contents of the management company statutes.
- **The competence and experience of teams in terms of exits** are examined in light of their proactive management capacity, the number and types of exits realized, and the average duration of investment.
- **The experience, commitment and motivation of key executives** are assessed through CVs and meetings with these potential partners.
- **The compatibility of the investment strategy of a fund with the objectives** of the institutional investor will be based on the particular type of investment stakes (minority or majority stakes), and the size of the deals.
- **The fees and management fees** and the management companies governance are examined.
- **The stability of management teams** is analyzed based on staff turnover, and staff seniority.
- **Reporting methods** are evaluated based on frequency, content, and format.
- **Management style**, discretionary or not, stems from investors' degree of participation in strategic decision making through the various management company decision making bodies (Investors Committee, Investment Committee, etc.).

### A Moroccan Insurance Company's Selection Criteria for Management Companies and Funds.

«To select a management company, we have a risk/return evaluation framework. This is effected by an evaluation of the performance of the management companies based on their **track-record**, an analysis of their **capacity to exit** and the managers **operational skills** as well as their adherence to reporting obligations, transparency and information reported up properly. To choose an investment fund, we have established a number of criteria that we review. The Due Diligence aids us in having a clear and precise vision of the **investment policy**, of **profitability** and **mastery of risks** by the fund managers. These three elements are crucial in the choice of an investment fund».

Managing Director, Insurance Company.

### ■ Strategic role of fund manager in the key stages of a private equity operation

Investors in private equity entrust their capital to investment fund managers; who are the direct actors who ensure the financial performance of assets under management. As such, managers must organize the several investment process, from raising funds, to identifying business opportunities, to organizing exits.

#### In raising funds...

Any Private Equity operation begins with fundraising. This phase is initiated by defining the outline of the proposed investment vehicle (legal form, investment policy, life time) to be presented to institutional investors to gauge their interest. If the investor wishes to participate in the fund, fundraising starts, comprised essentially the preparation of a presentation document (Placement Memorandum) and the structuring of the fund. The investment fund manager then goes to meet with investors to convince them to invest in the investment vehicle. Institutional investors attracted by the proposed investment fund sometimes perform due diligence to confirm the quality of the management team and its ability to manage its investments. A fundraising operation on average lasts about a year.

#### In constituting the investment fund...

The fundraising phase ends with the signing of a shareholders' agreement that ends the rounds of negotiations between investors and the manager to determine the roles, rights and obligations of each in managing, overseeing and executing Private Equity investments. The investment strategy and the profitability objectives are clearly presented in the shareholders' agreement. Other documents are produced and distributed at this stage of the process (cf. Contract Documents).

#### In the selection of enterprises...

Based on investment policy, the managers executes studies, audits and analysis required to select corresponding firms. The Manager for target identification and preparing and finalizing the investment as provided by a shareholders' agreement.

#### In the management of investments...

At the signing of the shareholders and in accordance with the share of capital held by the fund invested in companies, the manager contributes to the strategic decision-making and the creation of value. In general, the fund manager is represented at the board and within the main governing bodies (Audit Committee, Executive committee, etc.)

#### In exiting investments...

The investment fund manager ensures investment profitability by identifying the best opportunities for exit. The manager must be able to choose the timing and method of maximizing the exit value. Capital gains realized are distributed to investors and carried interest is paid to the manager based on the performance and profitability objectives of the fund.

### Management Company Requirements of a Moroccan Mutual

«Today, we require much more of management companies. To this effect, we often ask to get to know the managers and what resources they have at their disposal to ensure investment activities. We will no longer accept that a Manager is appointed to the team without our approval. We require quarterly reporting with an assessment done by an outside audit firm twice a year if we need to provision or to release provisions, etc»

CFO, Mutual Moroccan

#### ■ Contract Documents

Various contract documents define the relationships between institutional investors, fund managers and targeted companies:

- **Subscription commitment** of the investor whereby this latter will invest an amount in the fund which will then be used as needed by the fund. The commitment is contractually binding. However, it may be subject to conditions.
- The **statutes and rules of the fund reviewed** by the institutional investor to determine whether the fund's statutes are in line with expectations.
- **Shareholders agreement** governs relations between investors in the funds, organizes governance and may set investment policy. Investment policy can also be a separate document. The agreement also defines the distribution of the fund's performance between investors and management company.
- The **management contract** between the fund and the manager defines the mission entrusted to it, the relevant powers and the amount of management fee, which are between 1 to 3% of subscribed capital



# Private Equity Success Factors



## ■ Internal Transparency

Transparency is fundamental to the success of any Private Equity operation. Transparency concerns:

- The management company: Approved by the Minister of Finance on the advice of CDVM to manage one or more OPCR, as provided by Law 41-05
- The Investment Fund: a mutually owned investment vehicle without legal personality, contracting with a management company responsible for investing the assets in accordance with the mandate received from the fund
- The company invested

The management company is required to regularly communicate to investors information about the status and valuation of the investment portfolio and to keep them informed of business opportunities. The management company may also appoint an internal controller charged with ensuring compliance of management operations and reviewing potential conflicts of interest.

Investment fund transparency refers to the valuation of unlisted assets of the investment portfolio. Fund valuation by the management company must be at the frequency previously defined in the management contract. In addition, the fund accounts are usually audited twice a year.

An invested company agrees with the management company to regularly communicate its financial statements. This communication is usually subject to a management committee, which the results and actions to implement are discussed.

## ■ External oversight

In Morocco, external control is exercised mainly through :

- The Moroccan Capital Markets Authority (Autorité Marocaine du Marché des Capitaux, AMMC)
- The Auditor

### The Moroccan Capital Markets Authority (Autorité Marocaine du Marché des Capitaux, AMMC formerly the CDVM)

The AMMC, or the Market Authority, has the overall responsibility of protecting savings invested in securities. As part of its mission, the AMMC informs investors in securities about the proper functioning of the securities markets and compliance with legal and regulatory provisions governing them.

Under Law 41-05 on OPCR, the AMMC is responsible for the approval of OPCR and exercise a continuous oversight of their operation relative to compliance with the conditions under which licenses were approved, prudential rules, reporting requirements (Circular 10/02 of 4 January 2010) and investment policy.

Adopted by the Government Council of 25 August 2011, Bill No. 53-08 re the AMMC should, after review by the Ministerial Cabinet, be submitted to Parliamentary vote and replace Dahir No. 1-93-212 governing the CDVM, its predecessor. It should grant independence to the regulatory body and strengthen its powers to carry out supervision of capital markets.

### Oversight Process of the Moroccan Capital Market Authority

#### The AMMC

Established by Dahir No. 1-93-212 of 21 September 1993, the previous Securities Council (CDVM), now AMMF, is a public institution with legal personality and financial autonomy. As the market authority, the AMMC's mission is to protect savings invested in securities. To fulfill this mission, the AMMC ensures the dissemination of information to investors in securities and the proper functioning of securities markets through the monitoring of compliance with legal and regulatory provisions governing them.

#### Services covering Private Equity

The AMMC Department of Savings Management includes three services, the Management Companies Service, Collective Investment Vehicles (OPC) Service and the Approvals and Licenses service.

The Management Companies Service intervenes in the management company licensing process. After an analysis of the firm's technical, human and organizational capacity, the service sends an opinion notice to the Minister of Finance who then may grant approval. Following this, the approval and licensing of Funds themselves occurs via the Approvals and Licenses service based on an analysis of the fund. The Minister is no longer involved at this level.

Finally, the companies and funds begin operational life. Two controls are effected :

- Oversight of the management company either off-site by request or receipt of documents, or on-site, through direct inspections
- Oversight of the Fund, by the OPC Service, which monitors compliance with regulatory ratios and with the current regulations.

### Auditor

Currently, the legal form of management companies obliges them to be periodically audited by an auditor who certifies reports sent to investors by investment fund managers. The auditor also verifies the methods used by management companies to value their portfolio.

Under Law 41-05 relative to OPCRs, fund managers are required to annually report management companies' and OPCRs' certified financial statements (such as balance sheet, income and expenses, etc.) to the AMMC.

Under Article 38 of the Law, "any SCR as well as the management company for all venture capital funds it manages, is required to appoint an auditor for three years."

The first auditor shall be appointed for a period of one year, if capital is raised from the public, two auditors should be appointed.

Finally, the nomination of the Auditor(s) must be approved by the AMMC.

### ■ Role of AMIC

Founded in 2000, AMIC is an independent professional association whose mission is to unite, represent and promote the profession to local and international investors, public authorities and entrepreneurs.

According to its status, the Association works to :

- Promote Private Equity, including venture capital, in Morocco.
- Develop collaboration among management companies and promote good ethics.
- Defend the interests of management companies in relation to both public and private entities
- Promote member awareness of applicable laws and regulations and respect of good ethics.
- Organize and assure the availability of reliable information concerning the activities to its members.

With the aim to help guide and promote the development of the profession in Morocco, AMIC has developed a Code of Ethics to promote compliance with regulations and best practices. By statute, all members of the association are required to adhere to it.

# ANNEX I : Management Companies and Funds Managed



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

\* Funds not yet closed

\*\* Funds exiting

\*\*\* Funds closed in 2010

# Annexe II : BIBLIOGRAPHY



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EVCA – European Venture Capital Association –  
Investor Relations Committee

# Partners involved in the study



## MOROCCAN PRIVATE EQUITY ASSOCIATION (AMIC)

Founded in 2000, AMIC is an independent professional association whose mission is to unite, represent and promote the private equity profession to local and international investors, entrepreneurs and governmental bodies.

AMIC's main mission is to strengthen the private equity industry's competitiveness in Morocco and abroad through :

- Effective and clear communication on the Private Equity industry
- Executing reliable reports and surveys on the state of private equity in Morocco
- Active participation in discussions on any draft law regulating the sector
- Establishing a good governance and ethics code for the private equity industry and promoting compliance with such code
- Providing support services to members on regulatory issues related to the profession
- Development of a quality training program on all aspects of the private equity industry.

## FIDAROC GRANT THORNTON

The firm belongs to the Grant Thornton International network:

- A global leader in consulting and auditing
- Grant Thornton International includes more than 27,000 employees in nearly 120 countries
- Grant Thornton France is the official partner for the activity report of the French private equity players.

Fidaroc Grant Thornton operates in the following areas :

- Auditing and acting as Auditor
- Company valuation and acquisition and divestment audits (due diligence)
- Advisory work on corporate performance, organization and information systems
- Executing sectoral reports and benchmarking
- Supporting certification projects (customs classification and corporate social responsibility)
- Training in management and financial management
- Business Risk Services (risk management, risk mapping)
- Support companies in adopting IFRS standards.





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