

Investment Banking Services for Egypt

IBTCI Investment Banking and Privatization Diagnostic Report

**IBTCI/USAID
Investment Banking Project Team**

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Executive Summary

Perceptions Affecting Participation of Investment Banks in Egyptian Privatization

Introduction

During October and November, 1999 the consulting staff of International Business and Technical Consultants, Inc. (IBTCI), canvassed many of the firms included on a register of pre-qualified investment bankers and promoters compiled and approved at an earlier date by the Public Enterprise Office. The purpose of this effort was to explore the attitude of a locally experienced cohort of investment promoters (IPs) toward the processes of participation in the Egyptian privatization.

The perception exists among officials responsible for implementation of privatization, that participation of investment promoters in aid of inward investment is desirable and should be encouraged. To that end a review of their attitudes and experiences is deemed useful to determine issues which may affect their ability to profitably and effectively engage themselves as representatives of Holding Companies in the sale of their Affiliated Companies.

A number of issues common to most of the IPs were identified during interviews, usually with Managing Directors or management personnel responsible for competing for privatization mandates.

A compendium of the issues which the IPs, as a group, commonly raised is included below. The specific comments offered by the individuals interviewed forms the body of this report. The views expressed by the IPs appear to be salient. The extent to which the opinions are colored by a degree of success or lack of success in competing for mandates is not possible to determine. All interviewees were assured anonymity to encourage them to speak with candor.

It should be emphasized that many of the opinions are those of Egyptian nationals possessing experience both in the international investment and local investment arenas. Many of them appeared to possess in-depth knowledge of national politics and the conditions peculiar to privatization in their country. In general, the author believes their views to be less subject to individual or professional bias and, rather, more motivated by concern for and genuine interest in the further development of the Egyptian private-sector economy.

Common Issues

1. “Short List” of Investment Promoters

- A significant number of short-listed investment promoters do not possess expertise necessary to offer comprehensive investment banking services at an internationally recognized standard
- Qualified consortia of international and local institutions notably absent

- International institutions not motivated to transfer skills through participation in consortia
- International institutions not, generally, motivated to compete for any but the most lucrative privatization mandates; in some cases not even for those
- Cost of fielding qualified international team to prepare Tender Bids prohibitive, not cost effective because of procedural uncertainties in selection process
- Selection of investment promoter according to sole criterion of price is a decisive disincentive to participation in privatization by institutions with a successful private-sector practice

2. Decisional Jurisdiction

- Neither the Holding Companies nor the Public Enterprise Office are directly empowered to approve the sale of an Affiliated Company nor to insist upon adherence to standardized sale-procedures
- Determination and negotiation of a given asking price for a company frequently not consistent with standard market-valuation methodology
- The Central Accounting Authority may exercise arbitrary and inflexible prerogative to hinder a transaction
- Decisions to sell a given company may be politicized to the extent that a cabinet-level fiat is necessary to approve or expedite the sale
- There exists no institutionalized process or authority to guarantee that a sale, once initiated, will actually be completed
- There exists no authority to guarantee that, after a Tender for Bids, a mandate will actually be awarded to at least one qualified participating investment promoter or that the company shall actually be offered for sale
- There exists no authority to implement standardized legal and administrative closing and delivery procedures upon culmination of sale

3. Transparency

- Affiliated companies are generally loathe to provide financial information; Holding Companies are not always capable of supervising data collection and dissemination
- “Data-room” information provided during Due Diligence is not warranted by Holding Company as true and reliable
- Accounting and auditing firms are not perceived to be answerable to shareholders but, rather, to Holding Company boards
- Documentation used by Central Accounting Authority in setting estimated prices is allegedly held secret; indicative prices are not available even to investment promoters representing Holding Companies
- Hesitancy to provide historical financial data discourages both investment promoter and investor interest for lack of ability to develop an accurate financial profile of the business
- “Creeping Privatization”: floatation of minority share-holding without participation of “anchor investor” fosters neither management accountability nor re-structuring and re-capitalization of companies

4. Holding Companies

- Holding Companies (further: HCs) neither understand nor, necessarily concur with comprehensive participation of an investment bank in the development and implementation of a strategic sale
- HCs loathe to “loose control” of sale-process through delegation of authority to investment banker
- HCs are unwilling to engage an investment banker as strategic adviser early in planning-stages in matters of “packaging” affiliates for marketing and sale; significant “Added Value” lost
- HCs do not comprehend concept of “Added Value”, nor do they appreciate the use of an agent when competing for capital in a competitive international arena

5. Conclusions

Under current circumstances, international investment banks in Egypt are hesitant to compete for participation in privatization except in cases of sale of large enterprises enjoying large capitalization, pre-eminent positions in their sectors and dominant market share. The international investment banks with representations in Egypt are able to generate adequate revenue operating in the private sector. Management, therefore, finds it difficult to justify the costs associated with participation in a process perceived as procedurally complicated and offering only uncertain prospect of covering associated costs. A strong disincentive to their participation is the apparent ability of government-owned banks, not constrained by the need to charge performance- and cost-related fees, to successfully contend for sell-mandates while assessing fees which make it impossible for commercial investment banks to compete.

Those Egyptian boutique “investment promoters” with whom we met express, generally, the same concerns about the privatization process as the international investment banks. Some of these firms have enjoyed success because of their knowledge of the Egyptian arena and their ability to work with the state banks and governmental institutions. They know local conditions and use this advantage. Nonetheless, they do not, without reservation, endorse the process and, frequently, are critical of ambiguities in procedures. Many concur in the need for a more structured decision-making process of specified procedures under the aegis of one governmental agency. Representatives of this group almost unanimously recommended that Holding Company management, on the one hand, be made directly responsible to ministerial directive, and on the other hand, relieved by law of potential liability for certain decisions, particularly those related to valuation and sale-price, taken in furtherance of quick and pragmatic privatization.

The investment boutiques would also welcome government initiative in promoting consortia between themselves and international banks. It is the generally held view that the international banks are not motivated to enter consortia and not interested in promoting the transfer of skill which must result from such cooperation.

Finally:

The information presented in this report was gathered prior to the recent change of cabinet in Egypt. Some of the issues raised in the discussion may be addressed by policy changes now under consideration. Our team offers this report to Minister Khattab and his staff as an aid in developing such initiatives as may be deemed appropriate in view of all the conditions, social and economic, which affect the implementation of privatization in the specific Egyptian context.

Investment Banks in Egyptian: Privatization Diagnostic Interviews

Commentary from Interviews of: September - November, 1999

This report is a compendium of opinions and concerns expressed by representatives, usually principals or general managers, of international investment banks, local investment advisers and “promoters” which are reported here as stated without editorial commentary or critique.

Participants:

For IBTCI (variously):

Mr. Charles Francis
Mr. Mohsen Hasaan
Mr. Rajai Masri, CJF,
Miss Nancy Victor.

And,

Mr. Daniel Drevillon, General Manager, Bank Paribas;
Mr. Hazem A Moussa, Manager, HSBC Investment Company Egypt;
Mr. Morah, Manager, National Bank of Egypt;
Mr. Farouk Nasr, Principal, International Development Consultants;
Mr. Ashraf Mahmoud, Al-Ahly for Investment and Development;
Mr. Safwat Bali, Misr for Financial Investment;
Mr. Amr M. El Sharnoubi, Citibank;
Mr. Hasaan Heikal, Manager, EFG Hermes;
Mr. Nabil Farahat, Cairo Consortium;
Mr. Ezz El-din El-Masry, Manager, Misr Exterior Bank;
Mr. Amr Abou Zeid, Mrs. Amani El-Amin, Bank Nationale de Paris;
Mr. Todd Petersen, Manager, Ghazaleh Group (Talal Abu-Ghazaleh International);
Mrs. Hala El Barkouky, Principal, Allied Business Consultants.

Date: Sept. 29 Interview with: European Investment Bank

- Egypt suffers from “closed financial markets”;
- No international “benchmark” bond has been issued; this affects investor confidence;
- An international bond issue was proposed and failed to be floated as a price could not be agreed;
- Inability to properly price IPOs and equity investment is a further hindrance to investment;
- Privatization process is non-transparent and dauntingly bureaucratic, bureaucracy “sandbags” the process;
- Conditions surrounding bidding to represent Holding Companies (further: “HCs”) are unreasonable: two to three weeks to respond to tender for bids;
- Costs of mobilization of qualified team cannot be justified in view of lack of transparency and unreasonable bidding conditions, participation not cost effective;

- International management has declined suggestion of local management to contend for participation in privatization of Egyptian Telecom (!)...non-transparency and lack of clear process cited as reasons;
- HC (further: "HC") staff not conversant with issues in privatization, execution capability weak;
- There exists no adequate, competent counter-party as decision maker in privatization process;
- In cases where sovereign guarantee desirable National Bank is not acceptable as guarantor...government guarantee needed;
- Egyptian market, of all middle-eastern markets is most attractive, nonetheless no consumer credit available to finance development of that market...therefore companies in privatization less attractive...issues of growth and investment finance;
- Local banks don't support international financing operations, no adequate consortia;
- Wished to compete for purchase of cement company, HC was not open to discussion;
- If situation were to improve might consider participation in sale of insurance companies, electricity generation and distribution; ...perhaps reconsider stance toward Telecom.

Date: Sept. 30 Interview with: International Investment Bank

- Short-list of "investment promoters" too extensive, all presumed incorrectly, perhaps purposefully, by HCs to be equally qualified;
- HSBC wants to engage in IPOs and strategic sales in Egypt, however, not cost effective;
- Sales of obsolete companies simply not feasible, this is not understood;
- HCs do not understand role of and proper timing for engagement of investment bank, don't understand concept of value added in international market;
- HCs too secretive; investor cannot form opinion as to interest in particular investment target;
- Investment bank should structure and package offerings by HCs, government inflexible and does disservice by decreeing inflexible timetable for sale of particular companies;
- Re-structuring (in sense of re-grouping and re-organization as preparation for sale) is part of deal structure, should be undertaken early on with view to effective marketing of company;
- Experience is: Even in cases in which potential investor manifests interest if company not on sales-list company cannot be sold (!);
- Set schedule of sales, fixed implementation dates, inflexible bureaucratic process, competition from other investment venues, lack of will to sell, all hinder effective privatization;
- Case study: Sale of Nasr Glass and Crystal failed because Committee established at state-owned bank would (sic) not agree on value of debt in proposed debt/equity swap;
- CAA no longer the problem it once was, currently more flexible on valuations, not an insurmountable problem in sales process, case in point: current Department Store valuations.

Date: Oct. 3 Interview with: State-owned bank

- Valuation procedure remains a problem especially as concerns pricing of IPOs;
- This bank has allegedly worked in consortium with international investment banks and remains willing to do so; however, admits its public sector advantage in being able to undersell the private sector in competition for tender bids;
- This bank views privatization procedures as adequate and not hindered by bureaucracy;
- Bank will not finance management or employee buyouts, government regulations allegedly forbid bank to provide credits for either management or employee equity participation;
- No privatization of banks foreseen;
- Bank management generally content with progress and procedures of privatization, would, however, welcome privatization of banks.

Date: Oct. 5 Interview with: Boutique Investment Adviser ...foreign experience

- Experience in consortium with and as representative of major international investment bank, previously regional representative;
- Privatization should have begun with hard-currency generators: hotels and Egypt Air;
- Error committed with selection of public-sector banks to undertake privatization of several hotels, banks entirely inexperienced and, contrary to urging (of PEO?) unwilling to enter effective consortia, selected for political reasons as result of “low-balling” price;
- Obstacles to effective privatization: bureaucratic resistance and lack of appropriate incentives and post-privatization security for managers of affiliate enterprises;
- HCs lack fundamental skills to either understand or deal with concepts of “Added Value” and investment banks generally, not perceived as useful or necessary, moreover, HCs unwilling to pay for counsel and “expertise”;
- HCs must be unambiguously directed by minister of privatization that “lowest price tender bid” is not, of itself, adequate justification for awarding investment banking mandate;
- HC management fears civil and, possibly, criminal legal repercussions of accepting any but the lowest bid for investment banking services, direction in this matter urgently required “from the minister”.

Date: Oct. 10 Interview with: International Financial Services Organization

- Asset sales financially too insignificant to attract participation of top-tier financial organizations;
- Ministry of Transportation and Supply (MOTS) has portfolio of enterprises attractive to strategic investors;
- MOTS must more closely supervise its portfolio to expedite privatization;
- MOTS requires expertise to expedite and supervise privatization of its portfolio;
- Bureaucratic structures inhibit privatization sales, no clearly-empowered final decision-maker;
- Government shares in public companies are held by government banks which, in turn, possess inadequate management experience and inadequate decisional structure;
- Tender process flawed from beginning, information provided not adequate for investment bank to make even preliminary decision of interest in participation, information often inaccurate;

- Participation not cost-effective for investment bank with other sources of business; HCs do not recognize even most basic concepts of fair dealing;
- This investment bank devoted resources to participation in tender-bid, was awarded the bid only to find that the contract for representation would not be signed;
- Stock-market floatation preferred by HCs as management remains with floated companies whereas no such guarantee is provided by sale to strategic investor;
- Financing of privatized companies hindered in cases of international loan syndication by withholding of tax payable on interest to investor;
- Bond financing not effective as market illiquid, public sector banks forced to subscribe to government issues resulting in “crowding out”;
- Success fees: Feared potential criminal prosecution of management hinders selection of appropriate investment bank, lowest fees bid therefore most acceptable without regard to experience and capabilities of bidder.

Date: Oct. 11 Interview with: Egyptian-managed local office of International Investment Bank

- Decisional authority in privatization not possessed by HCs;
- HCs subject to (unspecified) political risk; each sales-decision must be made at cabinet level;
- HCs possess inadequate in-house expertise to deal with broad issues of privatization preparation and sales;
- Majority of pre-qualified “investment promoters” not able to provide comprehensive privatization advice;
- Emphasis on price as primary criterion for choice of investment banker prevents qualified representatives from bidding; representation is not cost-effective;
- HCs do not include investment banks in planning process at stage early enough to develop adequate strategy for re-grouping of affiliate companies into saleable industrial units;
- Investor should re-structure target company after acquisition; re-structuring by HC misallocates resources; does not necessarily improve prospects for ultimate sale.

Date: Oct. 11 Interview with: Boutique Investment Promoter...principal foreign-educated with work experience in international public-sector financial organization

- Original concept was to implement “creeping privatization”; increase private ownership in state companies;
- Under previous government valuation was employed as device to brake the pace of privatization;
- Valuation criteria were largely unrelated to cash flow, therefore not realistic indicator of true value;
- Track-record and capabilities of investment banks not adequately considered by HCs;
- Government practice of pre-selecting list of companies to be sold in given time-frame not practical; non-fulfillment of stated goals casts doubt on process and commitment to privatization;
- Problems in decisional-process are systemic; true authority not adequately delegated among government bodies; sales decisions must be made, at a minimum, at cabinet level;

- Procedures and responsibilities of various government agencies exercising influence on privatization should be formalized and accountability for decisions, or absence of decision, strengthened;
- Difficulty arises if investor wishes to negotiate for purchase of company NOT currently on privatization list.

Date: Oct. 11 Interview with: Investment Affiliate of Local Bank

- Valuations problematic as prices set unrealistically high and Central Accounting Agency's price estimate is held secret, not provided even to investment banker or promoter representing HC;
- Accountancy firms involved in valuation tend to respond to requirements of company Boards not to needs of shareholders;
- Flawed decisional process of awarding mandates to investment promoters resulting in cases in which promoter formally chosen but actual contract for representation never awarded;
- Cost to investment bankers and promoters of participating in tender requires guarantee that underlying company will actually be sold;
- HCs use investment bankers as brokers not as providers of comprehensive services;
- Management of affiliate companies have no incentive to aid sale-process; possible loss of position and security not adequately addressed by currently offered "early-retirement" or compensation measures;
- IPOs hindered by thin market for shares and lack of liquidity;
- "Bureaucracy with upper-case "B" " is hindrance to privatization; decisions slow, process unnecessarily complex, therefore outcomes in any given case uncertain.

Date: Oct. 12 Interview with: Local Investment "Consortium"

- HCs don't know what to expect from an investment bank, therefore professional relationships develop strained, not comfortable with broad delegation of representational authority to an agent;
- HCs do not understand that experience and capability of investment banker may improve both likelihood of successful sale as well as improve terms of sale;
- HCs unwilling to accept usual conditions of compensation of investment banker; retainers particularly unwelcome;
- Competition from unqualified investment promoters results in submission of unrealistically low bids;
- Privatization strategy not originally conceived as vehicle for entry of strategic investors;
- Standardized procedures for transfer of company to strategic investor not institutionalized;
- Strategy of floatation of shares without participation of "anchor investor" not flexible enough to address needs of economy and investors;
- Both inadequacy of "early retirement" program and, from investor's perspective, difficulty in enforcing contracts act as disincentive to privatization sales.

Date: Oct. 12 Interview with: Investment Affiliate of Local Bank

- HCs do not have adequate understanding of legal aspects of sale of companies;
- Administration of closing procedures for transfer of company ownership lacking;

- HCs do not re-group smaller production lines into integrated competitive units more suitable for sale;
- HCs do not recognize implicit obligation to pursue transaction in good faith to its conclusion once negotiations undertaken;
- HCs unwilling to certify information provided to potential investors;
- Disagreements arising from non-disclosure result in disruptive re-negotiation of contracts in late stages of sale
- HCs do not enter sales negotiation with clear sale-strategy and motivation to sell;
- HCs inflexible in accommodating financial-structuring necessary to aid financing of sale.

Date: Oct. 14 Interview with: European Investment and Commercial Bank...Egyptian management

- Mismatch exists between HC needs and degree of sophistication required to recognize and address those needs;
- HCs see no reason for privatization, obstruct the process;
- HCs perceive that cooperation with an investment bank results in benefit accruing solely to the investment bank;
- Managers do not comprehend the privatization as policy, no apparent benefit accrues to management in privatization;
- Investment bankers viewed as threat to security and livelihood;
- No mechanism exists for sale of smaller companies not suitable for sale by international investment bank;
- Consortia should be promoted as means of skill-transfer to local investment banking sector
- International banks not interested in knowledge-transfer; do not fully realize that negotiation success requires Egyptian to Egyptian contact;
- Methodology of fielding unsolicited bids for sale of companies unsatisfactory;
- Companies not on official sales-roster cannot be sold; fear of accusation of favoritism or non-transparency;
- Venture capital should be drawn into privatization process;
- Valuation remains a problem because of inflexibility of relevant authorities and fears of accusation if lower than officially-sanctioned price approved;
- *Needed: Mechanism for legal protection of decision-makers in privatization from unfounded allegations of misfeasance from initiation of process through conclusion;*
- If decisional process, fee structure and standards of transparency remain as they currently are this bank (interviewee) is not interested in participating in privatization;
- HCs require their own internal consultants and advisers;
- Current HC privatization officers do not comprehend even most basic analytical techniques or notions of corporate governance.

Date: Oct. 27 Interview with: Boutique Investment Advisory Firm ...successfully managed sale of Cement company

- Government criteria underlying privatization: No layoffs, no write-off of bank debt, valuation at greater than asset value;
- Central Accounting Agency reserve price must be met, if not process blocked if Ministerial Committee does not approve lower price;
- Cabinet decides which companies will be sold and when, criteria for decision unclear;

- HCs require competent help to draft Tender Documents for selection of investment bank as well as all other documentation to be provided by HC to potential investor.

Date: Oct. 28 Interview with: Middle-Eastern International Investment Group, appointed as sole Privatization Adviser to Lebanese Government...comments reflect experience with recent inward investor, HC and government agencies

- HC provided vague information, inadequate operational and financial details;
- Expended five months time in almost daily negotiations with no tangible results;
- HC acted without consistency in instructions to investor, delegation of negotiating authority, scope of negotiations;
- HC would not allow Due Diligence nor provide indicative price;
- Investor was required to purchase Tender Documents;
- Financial statements never provided
Result: Seriously motivated investor decamped.
- Authority to sell should be removed from HCs and transferred to PEO or similar body;
- Professionals should be hired and placed at disposal of PEO to “package” and sell companies in portfolio;
- Adequate delegation of authority does not exist, “bottleneck” exists at “top of decision-chain”;
- Time and information to formulate bids for representation completely inadequate... one week recently allowed for presentation of commitment to cost of representation in sale of company on the basis of one year’s financial statement of company for sale.
- Processes of valuation inaccurate, politicized.

Investment Banking Services for Egypt

First Project Event

Orientation Seminar for PEO and Holding Companies

October 24, 1999

Introduction

A first orientation seminar was held at the offices of the Public Enterprise Office (“PEO”), on the morning of October 24, 1999, with the objective of introducing the staff of IBTCI to representatives of the Holding Companies (“HCs”).

Attendance

PEO

Mr. Fouad Abdul Wahab, Director PEO
Mr. Akrum Bastawi
Mr. Mohamad Hassounah

USAID

Mr. Ross Bigelow

IBTCI

Mr. Jayant Kalotra
Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan

Points of Discussion

1. Mr. Fouad Abdul Wahab opened the session by briefly explaining the purpose and objective of the meeting.
2. Mr. Charles Jelinek-Francis briefly introduced the IBTCI team. He explained the project-goals and role of IBTCI as follows:
3. IBTCI is involved in an advisory role, as a facilitator, and trouble-shooter. IBTCI won't play an executive role and won't be involved in actual privatization work.
4. IBTCI would assist in the enhancing of communications between the HCs and the investment promoters.
5. IBTCI would suggest procedural improvements as where appropriate.

6. IBTCI would organize a series of round-table meetings to address priority issues in preparation for privatization.
7. IBTCI would meet a number of HCs on a one-to-one basis, and determine their needs. Identify multiparty issues for further study in round-tables.
8. IBTCI would meet a number of investment promoters on a one-to-one basis, and determine their concerns.
9. Mohsen Hassan, discussed the role IBTCI will play. He emphasized that their approach would emphasize practicality, in most relevant fashion, and away from theory. He spoke as a colleague to a crowd of HC representatives, addressing them in familiar business language and terms.
10. Mr. Fouad Abdul Wahab expressed appreciation for the assistance sponsored by USAID. He indicated that USAID would be providing further assistance to expedite the process of privatization. He then invited comments from the representatives of the HCs. A discussion among the HCs ensued. Some of the major points raised were:
 - There remain many unresolved issues of legality that complicate the process of privatization. There are inherent tax considerations that could rise in the repackaging process of the transfer of assets from affiliate companies to the holding companies. There remains the eventuality that the purchaser/strategic investor could become tax liable, with recourse, should it be determined that the sold assets were undervalued. Arbitration clauses also seemed in conflict with the general governing law.
 - Some representatives reckoned that some of the sticky legal issues would demand the modification of existing pertinent laws or the promulgation of new laws to address the issues, a process that could be very involved and that can only be carried out at the highest level of policy making. Mr. Fouad Abdul Wahab suggested that should such an eventuality arise, then the matter can be referred to the general assembly of the HC concerned to rule over the matter in question.
 - Questions were raised about the lack of clear standards for valuation.
 - Questions were raised on restructuring prior to sale. Mr. Fouad Abdul Wahab explained that the minister made it clear that restructuring would precede sale.
 - Many specific questions were raised, including a question on the admissibility of sale to a single purchaser after the close of the stipulated tender period, should there be no other competitive bids. Another question was raised about the admissibility of sale of a losing affiliate company to a single willing purchaser, even without the process of an open tender. Mr. Fouad Abdul Wahab concurred with its admissibility.
 - Another issue was raised about the tendering period, and the difficulties, legally, to re-open the tender should no acceptable offer be received.
 - Complaints were raised about the inflexibility of the Central Auditing Agency with regard to valuation.
 - Issues were raised about social responsibilities towards the employees and the suggested schemes for fair compensations.

- Mr. Fouad Abdul Wahab sympathized with the dilemma of the management of the Holding Companies in attempting to insure the establishment of a fair price. He spoke of his understanding of their concerns and of consequences that could befall them *ex-post*, should the sale-price of the AC be in hindsight, to have been lower than a subjectively stipulated price higher than what the market will pay.
- The Chairman of the Board of the Maritime HC, Atef Marouni, showed enthusiasm and eagerness to commence discussions with IBTCI, on one-to-one basis; the Building and National Construction & Building Holding Company as well.

Investment Banking Services for Egypt

Second Project Event

Investment Banking Services and Legal Framework of Privatization

November 4, 1999

Introduction

The first of a series of events to assist the Holding Companies (“HCs”) in the process of privatization was held on Thursday November 4, 1999, at the offices of the Public Enterprise Office (“PEO”). –The targeted audience is the decision-makers in the HCs.

The chosen topic for the first workshop was: Legal Framework of Privatization. The invited speaker was counselor Ahmed A. Hassan, Vice Chairman of the State Council. The event was chaired by Dr. Mahmoud Salem, legal and economic advisor to the Minister of Public Enterprises.

Mr. Hassan is involved in the formulation and subsequent interpretation of most all the new investment and commercial laws in Egypt. He and Dr. Salem were responsible, to a large extent, for the formulation and executive interpretations of Law 203, of 1991, which governs the privatization program in Egypt.

The objective of the roundtable was to familiarize a selected group of HC executives with the various laws that govern joint-stock companies and the background of their formulation and development. We also wish to provide a forum for open exchanges to address a range of specific legal issues directly bearing on the HC or its affiliates during privatization.

Attendance

Speaker

Mr. Ahmed A. Hassan, Vice Chairman, State Council

PEO

Dr. Mahmoud Salem, Adviser to Minister
Mr. Mohamad Hassouna, Restructuring Specialist

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai R.Masri
Mr. Mohsen Hassaan

Holding Companies

Mr. Wadie Mishreky	Privatization Advisor, Metallurgical Industries
Mr. Omar Saad Eldin	Director of Privatization Housing, Tourism and Cinemas
Ms. Jamalata Abdul-Aal	Legal Department Housing, Tourism and Cinemas
Mr. Munir M. Ali	Projects Specialist, Chemical Industries

Mr. Ibrahim S. Fawzi	General Manager, Construction Holding Co.
Ms. Nahed S. Sharief	Senior Attorney, Agricultural Development
Mr. Nabil Dwedar	Asst. General Manager, Maritime Holding Co.
Mr. Zaki S. Zakaria	Director Privatization, Maritime Holding Co.

Organization

The roundtable was held in an informal setting to allow for maximum ease of discussion of issues of immediate concern, and the expression of varying points of views and suggestions.

The first roundtable was dedicated to covering part-I and part-II of the agenda: “Background: Laws Governing the Joint-Stock Companies in Egypt,” and “An Elaboration of Documentation Necessary to Prepare a Company for Privatization.”

Subsequent events are planned to discuss further legal issues such as: The design and contents of a standard contracts, and other recurring legal issues common to the HCs.

Points of Discussion

Mr. Hassan proceeded during a three-hour meeting to cover the topics in an orderly sequential fashion. Dr. Salem intervened intermittently relate specifics examples from actual cases to the theoretical theses of the discussion. For example:

Why Legal Review?

Mr. Hassan stressed the development of the commercial and investment laws to their present state. He stated that he had endeavored to promote one comprehensive law to facilitate matters and remove confusion in interpretation with of four separate laws. This initiative was, however, not successful.

- It was explained by Messrs. Hassan and Dr. Salem why it is imperative that the HCs be fully familiar with the history and the circumstances of the development of these laws, as well as the varying interpretations occasioned by varying situations
- Many of the ACs are governed by different laws, and their activities as public sector companies, are constrained by certain legal obligations with which management must be fully familiar. This is especially true with regard to many procedures such as liquidation, etc.
- Both Mr. Hassan and Dr. Salem stressed that any mishandling of any aspect of the privatization process, by even virtue of ignorance, could have serious ramifications for the managers involved, to the extent, in some cases, of criminal sanction. Thus the necessity of being fully cognizant of the governing laws and their application is a matter of utmost importance.
- It should be noted that this threat of criminal sanction for mere negligence appears to hinder a more aggressive approach to privatization by company management.

Background

- Mr. Hassan narrated the legal developments pertaining to the laws governing joint-stock companies and the stock markets since 1954.
- He described the five laws currently governing the activities of the ACs in varying degrees and different manners. These laws are:

Law 159 of 1981, regarding joint-stock companies;

Law 8 of 1997, the investment law (guarantees & incentives regarding investment);

Law 97 of 1983, concerning public sector companies and authorities (e.g. the assets and shares of such companies shall not be sold & such selling is forbidden by law);

Law 203 of 1991, regarding the Public Enterprise Companies, where such law allowed the sale of the shares and assets of the public sector companies; and finally,

Law 95 of 1992, regarding the capital market.

- Mr. Hassan, and Dr. Salem, explained each law, and gave specific case-study examples to clarify and emphasize points.
- According to Law 203 of 1991, a public sector company shall be considered (become) a private sector company if the ownership of the HC in the AC doesn't exceed 50% of the equity capital. Law 203 is intended to bring the laws governing the operations of public sector companies closer to private sector laws.
- Messrs. Hassan and Dr. Salem touched on points of inter-institutional confusion and difficulties in the interpretation of the laws.
- The spirit of all the new laws are to contribute to the fast development of a capital market and sufficiently capitalized stock markets; to facilitate the inflow of investment capital to Egypt. and the formation of joint-stock companies. The emphasis on transparency stems from these objectives.
- CAA standards are now closer to international accounting and auditing standards.
- Messrs. Hassan and Dr. Salem discussed the voting rights of minority shareholders. A debate ensued on this issue among nearly all the attendees.
- Mr. Hassan made suggestions how to safeguard the interests of minority shareholders by including safeguards in the Articles of Association He emphasized that is necessary in respect to voting rights, liquidation and share dilution.
- Mr. Hassan reminded the audience that the laws do not permit the revaluation of the assets of the operating company except in the eventuality of merger with another company.
- In order to facilitate the privatization a the Committee for the Facilitation of the Transformation of Public Sector Companies," was founded., It is comprised of three

members: Mr. Ahmad Hassan , Dr. Mahmoud Salem and the Director of the Companies Administration Department.

- Mr. Hassan touched upon the subject of employees as shareholders and the organization of the “Union of Employee Shareholders.”

Disclosure & Transparency

- Mr. Hassan and Dr. Salem impressed upon the HC representatives the need to conduct a proper due diligence to verify the state of the assets and obligations of the ACs designated for privatization.
- This would facilitate the preparation of an Information Memorandum (“IM”), and expedite the process of the sale of assets, as well as remove possible grounds for disputes, that might prove costly and damaging to the seller.
- Messrs. Hassan and Dr. Salem pointed out to the fact that international investors are a sophisticated group that approach the task of acquisition with extreme caution and employ leading reputable international professional specialist houses in all the respective domains: legal, financial and technical. They thoroughly examine all details of a transaction.
- Mr. Hassan related that on a visit to Thailand he was told that three most assurances needed by foreign investors were: Guarantees against expropriation or nationalization; free convertibility and transfer of funds; and foremost, the existence of a fully developed legal framework.
- In this vein, Mr. Hassan allocated significant amount of time to discuss some of the legal framework and mechanisms enacted to further institutionalize the development of an advanced legal system, and ensure transparency.
- He mentioned many examples, of the methodology, function, and the rapid implementation of the binding resolutions of the Grievance Committee.
- This committee was specifically created to enhance the development and effectiveness of a capital market. He admitted that financially trained legal counselors are fewer than needed.
- Mr. Hassan and Dr. Salem requested that the HCs be aware and take into consideration the possible change of valuation of the assets once acquired by the private sector. This might occur as a result of the cessation of concessions, franchises and other inherent advantages, such as monopoly, which were enjoyed by such companies by virtue of their peculiar earlier status as public sector companies. They related a few examples such as the Maritime Agencies rendered worthless when the monopoly status was lost.

Due Diligence: Preparing for Privatization

Counselor Hassan and Dr. Salem recommended full transparency in the conducting of the privatization process and urged the HCs in this regard, to conduct a prior due diligence of their portfolio of ACs, with special emphasis on the following matters:

1. The Articles of Association and Statutes.
2. The Commercial Registry. Some ACs could be operating without proper registration with the competent authorities. This could prove very problematic and time consuming for the prospective investor.
3. The Tax Card, and the overall tax situation: It is not unusual to find many Acs much in arrears on various taxes due (e.g. income tax, salary taxes, sales taxes, stamp tax, real estate tax, etc.).
4. Import & Export cards.
5. The validity of all licenses and permits relating to certain fields of activities.
6. Pending litigation, which shall include all the cases filed by or against the company.
7. Social Insurance.
8. Insurance policies: Validity and premiums outstanding.
9. Current contracts & obligations.
10. The registration and valuation of Trade Marks and intellectual property.
11. List and Status of distributors, suppliers and agents.
12. Establishing the Union of the Employees Shareholders.
13. The validity and enforceability of title to all assets, including real estate.
14. Inspection of the lease contracts.
15. Review of all legal books.
16. The registration of the company in the Stock Exchange. This could prove advantageous to the seller, and can also remove many potential hurdles to the buyer.
17. The registration of the company in the Central Book Keeping.
18. The valuation of the company.
19. The accuracy, completeness and timeliness of duly audited financial statements, along with the accompanying notes and commentaries.
20. A historical narration of all the salient events that affected the business of the company since its inception.

Investment Banking Services for Egypt

Third Project Event

Methodology of Selecting and Dealing with Investment Promoters

November 10, 1999

Introduction

This event, convened to discuss the “Methodology of Selecting and Dealing with Investment Promoters,” took place at the offices of the PEO on Wednesday, November 10, 1999. The topic is relevant to enhancing communications between the Holding Companies (“HCs”), and Investment Promoters.

The speakers and setting were selected with a view to maximizing communication. Executives of HCs known for success in privatization related their experiences first hand, in a case-study format to an audience of their counterparts from other HCs.

Attendance

Speakers

Mr. Wadie Mishreky, Privatization and Investment Advisor, Metallurgical Industries
Mr. Tarek Abul Ola, Chief Investment Advisor, Mining and Refractory

PEO

Dr. Mahmoud Salem, Legal and Economic Advisor
Mr. Mohamad Hassouna, Restructuring Specialist

IBTCI

Mr. Charles Jelinek-Francis (excused for illness)
Mr. Rajai R. Masri
Mr. Mohsen Hassan

Holding Companies

Ms. Salwa A. Mansour	Director Econ. Studies, Mining and Refractory
Mr. Tarek Abul Ola	Chief Investment Advisor, Mining and Refractory
Mr. Wadie Mishreky	Privatization Advisor, Metallurgical Industries
Mr. Ali T. Al-Qadi	Accounting, Agricultural development
Mr. Zaki Zakaria	Chief Privatization Advisor, Maritime Transportation
Mr. Nabil Dwedar	Asst. Gen.Mngr Investment, Maritime Transportation
Mr. Omar Saad El-Din	Director Privatization, Housing, Tourism and Cinemas
Mr. Safwat M. Hassan	Director Privatization, Food Industries
Mr. Ibrahim S. Fawzi	Gen.Mngr. Econ. Studies, Building and Construction

Organization

The agenda allowed each speaker 25 minutes to present his remarks. This was followed by an approximately one hour of open discussion. Mr. Wadie Mishreky was the first to speak then Mr. Tarek Abul Ol. Followed in a similar fashion. Dr. Mahmoud Salem chaired the event and Mr. Mohsen Hassan acted as a moderator.

Mr. Wadie Mishreky's Presentation

Selecting Investment Promoters and identification of a Strategic Investor.

Mr. Mishreky favors, from practical experience, the restriction of solicitation for bids to only a very few investment promoters. He reminded the attendees that the role of the investment promoter is predominantly a consulting one. He further described the investment promoter selection process which he sub-divided into five phases.

- *Phase One:* Important factors to consider when selecting Investment Promoters. Selecting from the PEO's approved list.
- *Phase Two:* Preparing Requests For Bid (RFB). Broad Framework of the contents of the Technical and Financial Proposals.
- *Phase Three:* Terms of Reference for evaluation of the Technical and Financial Proposals.
- *Phase Four:* The Evaluation Process.
- *Phase Five:* Final Negotiations and Selection. The Content of the Letter of Award

Discussion (Annex I, attached below, augments the following points):

- Mr. Mishreky argued that a retainer, in addition to success fee, be paid to the investment promoter. He believes this would encourage the investment promoter to carry out its mandate more seriously and more effectively. Proper performance involves significant up-front expense and allocation of resources.
- Mr. Mishreky supports his position with the assertion that assets remaining to be privatized are less attractive than those previously sold. Some did not require the intervention of investment promoters. Now, however, that the option for IPOs is less feasible, the specialized services of the investment promoter become more necessary. In the absence of a retainer, the investment promoter wouldn't have adequate incentive to seriously canvass for an investor. One remark was made that the privatization law (reference is made here to Law 203) limits the role of the investment promoter in the privatization process.
- The attendees seemed skeptical of the basis on which the CAA determined prices, valuation, of assets to be privatized. The CAA, apparently entertains the erroneous notion that the buyer/acquirer is favored by the methodology of valuation employed by the CAA. The attendees favored more standard methods of valuation: replacement value or discounted cash flow.

- Potential future accountability for the ultimate selling price looms large in the minds of decision makers at the HCs.. It could easily become a point of contention and implies an institutionalization of suspicion of the integrity and the good judgment of the decision-makers. Potential liability seems open-ended. This apparent threat explains the caution displayed by the management of the HCs in the disposing of the assets, and is having an impact on the acceleration of the privatization process.
- An addendum to Rule 26 of Law 203, lately issued by the Prime Minister's office, helped allay management concerns by reaffirming the right the General Assemblies of the HCs.to value the assets to be privatized.
- All present stressed the risks attending the failure to effect the sale of a company/asset after it had been advertised. Such failure undermines its value, or may render it completely un-marketable.

Mr. Tarek Abul Ola's Presentation

A Case Study of a Sale to an Anchor/Strategic Investor: Beni Swaif Cement.

- Company background.
- The procedures for privatization.
- Reconciliation of the legal status of the company with Law 159 of 1981.
- Selling company shares to the Union of Employee Shareholders.
- The role of the investment promoter/consultant during various phases of the Privatization Process.

Points of Discussion

PEO's Policy

Dr. Salem opened the session by stating PEO's policies and philosophy regarding the selection of investment promoters.

He indicated that invitations to bid should be addressed to all the investment promoters in the PEO's pre-qualified list (41 in total). That is: In addition to others who might respond to a public advertisement. Dr. Salem believes that the EL 5,000 paid by the pre-qualified investment promoters in answer to the invitation is a sufficient proof of their seriousness and commitment to perform.

This became a point of contention, and several of the attendees, including the speakers, thought that to solicit bids from multiple firms had proven time consuming and costly.

- Dr. Salem's emphasized that multiple bid solicitation helps insure transparency.
- Dr. Salem called for continuous preparation of the companies for privatization. He reminded those present of the need to emphasize the transfer of technology, and not to lose sight of the macro-economic goals of the privatization program. Paramount among the objectives is to ensure the continuation of the AC as an on-going concern after the sale. He emphasized the need to improve and expand production after the sale.

- Additionally, he advised that criteria for the selection of offers should not be financial only, but should assign value to investors who are specialized in the same business activities as the AC.

The Presentation by Mr. Abul Ola

Mr. Abul Ola presented a case study of the successful privatization of the Beni Sweif Cement company. The essence of the presentation is contained in Annex II, attached below. The Sale of Beni Sweif Cement Company is exemplary as it involved complex due diligence as well as financial structuring required to address the issue of substantial yen-denominated non-assignable loans. A dramatic revaluation of the exchange rate in favor of the yen since contracting the loans in 1985, caused the revaluation of the assets to unrealistic levels.

Mr. Abul Ola described problems the company faced in the absence of orderly Documents of Title. He explained that in the course of normal business expansion the National Cement Company, the original title-holder, created, new, independent cement plants, without due registration as independent operating companies.

The problem was overcome by a decree of the Prime Minister adding an addendum to Rule 26 of the Executive Regulations, of Law 203. Accordingly the General Assembly of the HC was empowered to adopt a binding resolution approving an acceptable and realistic price derived from the privatization price of a comparable company: Sinai Cement.

Creating and Preparing A Data Room

Ms. Salwa Mansour is known among the HCs for having organized an exemplary Data Room.

Ms. Mansour explained which documents the data room should contain and related examples of situations which may arise when dealing with representatives of the prospective investor in the course of due diligence.

It was decided to devote a future project event to further discussion of this topic.

Evaluation

At the end of this event the PEO solicited participant evaluation.

The ratings were:

- Excellent 6 persons
- Good 3 persons
- Acceptable 1 person

Annex I

Highlights of Methodology of Selection and Dealings with Investment Promoters

Mr. Masshrekie of the HC, Metallurgical Industries, explained the process of selection of investment promoters/bankers. He suggests the process involves five phases.

Phase I

The HC should first determine the degree of attractiveness to a prospective investor of the ACs' field of specialization and business activities, and broadly classify them into:

- Attractive business and activities.
- A non-attractive business.

The appropriate selling strategy:

- Public Offering (PO), or
- Strategic investor (local, foreign or both).
- The size of the transaction.

The HC should next establish criteria to pre-qualify a short list of prospective investment promoters, drawing first on the PEO's list of pre-qualified promoters while soliciting up-dated information. Mr. Mashrekie proposed the following criteria for qualification:

1. Previous experience in the investment promotion in general, and in the field of activity of the affiliated company in particular.
2. Number of transactions, their sizes and values, successfully completed by the investment promoter.
3. The sale strategies of the above transactions: POs or sale to strategic investors.
4. The need to engage foreign investment promoters is determined by their international presence and a network of wide clientele base.

Phase II

Issue letters of invitation to short-listed promoters. The letter should contain the following information:

- The size of the transaction in question.
- The selling strategy (PO, or a sale to a strategic investor).
- The minimum price, if known.
- The expected period for the sale of the assets.
- An information memorandum and other related documents.
- The date of submission of the advisory/investment banking proposal.

The solicited bidders should submit two proposals: one technical and one financial.

The *technical* proposal should contain:

- A work plan, or a strategy for the promotion of the sale commensurate with the size and type of business to be sold, and strategy to achieve a successful sale, and the realization of the highest price.
- The scope of work and the role that the promoter would perform.
- The time frame required to successfully consummate the transaction.
- The *financial* proposal should contain:
 - The proposed success fee to the investment promoter.
 - The expenses to be borne by the holding company, with a defined ceiling.

Phase III

Prior to receipt of offers from the investment promoters/bankers, the holding company should establish standards, criteria and procedures for evaluating the technical and financial proposals. Mr. Mishreky pointed out may vary to suit the nature, conditions and circumstances of the different transactions and may take into account the following considerations:

- The size and value of the transaction under consideration.
- The nature of the business to be sold, and the degree of its desirability to prospective investors as regards:
 1. The profitability of the business (scaled: good, average or weak).
 2. The market share that this particular business enjoys.
 3. The growth potential of the business likelihood of expansion and development.
 4. The nature of the risks and problems faced by the company.
- The maximum period envisaged to complete the transaction.
- The estimated costs involved (success or no success).

In accordance with the results of the evaluation relative weights are given to each component and to the technical and financial proposals. For example:

- 80% technical: 20% financial
for a business requiring high promotional capabilities to sell.
- 50% technical: 50% financial
for business that does not require high promotional capabilities.
- 30% technical: 70% financial
for business that does not require high promotional capabilities.

Phase IV

Upon receipt of the offers from the bidders of the investment promoters the following steps should be taken:

Technical Proposal

Open the envelopes containing the technical proposal, and record the contents in a special register designated for this specific purpose. Review and evaluate the proposal by a committee of experts.

- Each member of the committee should afterwards be asked to give his/her evaluation independently, and an average value is drawn from these independent assessments which comprises the final technical evaluation of the proposal.
- The technical evaluation committee then prepares a report on its recommendations, citing its justifications based on the specifics of each submitted proposal.
- The evaluation results, along with the committee's report are then put into an envelope, which in turn would be sealed and deposited at the committee's secretariat.

Financial Proposal

- A special financial committee is formed, and it oversees the opening of the envelopes containing the financial proposals
- The financial committee should prepare a report estimating the cost of engaging the services of an investment promoter/banker based on the results of the evaluations.
- A comprehensive report should then be prepared containing the results of the technical and financial evaluations.
- The evaluation reports and recommendations should be then approved and authorized by the Chairman of the Board of the HC.

Phase V

- A letter of notification would be sent to the winning bidder.
- Subsequently, a draft contract would be drawn to establish the legal basis of the arrangement between the HC and the investment promoter. This should include definition of the promoter's role and establish the fee structure.
- Thank you letters are sent to the unsuccessful bidders.

Annex II

A Case Study of a Sale to a Strategic Investor

Beni Sweif Cement Company

Mr. Abul Ola and Ms. Salwa Mansour, suggested the following procedural steps in preparation for sale of an AC.

I. Prepare a company history

- The Founding of the Company.
- The Company's market share in cement.
- The situation of the labor force.
- Capital, in the broad sense.
- Results of operations over the years since inception.
- Disclose financial problems to be resolved during the privatization process.

II. Define procedures to be followed in the privatization of the company

- Designating the Company as a candidate for privatization.
- Valuation the Company (the valuation process).
- Preparation of all relevant documents to prepare the company for privatization.
- Advertising publicly the invitation to bid to strategic investors.
- The outcome of the bidding.
- Negotiations with the best bidders.
- Concluding and signing the sales contract.

III. Undertake reconciliation of the company's position with Law 159 of 1981.

IV. Complete the sale of a minority share to the Union of Employee Shareholders.

V. Clarify the role played by the consultants to the company at the different stages with regard to:

- Valuation.
- Preparing and putting in order the various documents to facilitate the privatization of the company.
- Negotiations.

Investment Banking Services for Egypt

Fourth Project Event

How to Prepare a Public Enterprise Company for Privatization:

A Legal Perspective

November 18, 1999

Introduction

The fourth project event addressed preparation of state-owned companies for privatization. It took place on Thursday, November 18, 1999, at the offices of the PEO. The guest speaker was Mr. Ahmed Hassan, Vice-Chairman of the State Council of Egypt. This second event in a series of three, was devoted to an in-depth discussion of the various legal issues a Holding Company ("HC") must address when undertaking privatization.

Mr. Fouad Abdul Wahab of the PEO chaired the meeting.

Attendance

Speaker

Mr. Ahmed Hassan

PEO

Mr. Fouad Abdul Wahab, Director, PEO
Mr. Gamil Mossaad, Advisor to the Minister
Mr. Mohamad Hassouna, Restructuring Specialist

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai R. Masri
Mr. Mohsen Hassan

Holding Companies

Nabil M. Dwedar	Asst. Gen. Manager Investments, Maritime Transportation
Zaki S. Zakaria	Director of Privatization, Maritime Transportation
Gamatat Abdul Aal	Director of Legal Affairs, Housing, Tourism and Cinema
Mohamad Hamed	Director Marketing and Planning, Spinning & Weaving
Ahmad Mohamad	Director Legal Affairs, Textile Manufacturing
Abdul Hafez Toukhi	Director Economic Dept., Textile Manufacturing
Fuad Ahmad	Attorney, Pharmaceuticals
Nasser Mustafa	Attorney, Pharmaceuticals
Safwat M. Hassan	Director of Privatization, Food Industries
Ahmad Yusuf	Director Economic Affairs, Electrical Construction
Ahmed Suleiman	Member Board of Directors, Cotton and International Trade
Ahmad S. Jaber	Director Legal Affairs, Cotton and International Trade
Munir Hasan	Engineer, Engineering Industries
Ibrahim Fawzi	Director Economic Studies, Building and Construction

Organization

This event is the second of a series of three designed to enhance the awareness of the HCs of legal matters pertinent to Affiliate Companies (“ACs”) privatization.

The discussion was primarily about issues of transparency, efficiency, and legal compliance in the privatization process.

Materials

A document in Arabic, containing a compendium and explanation of the laws affecting privatization, was distributed to all attendees.

Points of Discussion

Mr. Hassan started the discussion by reviewing and commenting on the different documents that a company in privatization should possess, validated and in good order at all times. He offered specific examples from actual cases and recommended that attention be given to the following particular matters and documents:

Valuation

- The Quadrite Committee examines the validity and accuracy of valuation of the assets or company to be privatized. However, nothing in Law 203 of 1991 addressed the issue of handling disputes.
- The Prime Minister issued a decree No. 2781 on 20, September, 1998, adding an addendum to the Executive Regulation 26 of Law 203. The addendum empowers the General Assembly of the HC, in an extraordinary meeting, to take the final decision as to value and therefore, price of the AC to be sold.
- The promulgation of this addendum alleviated confusion regarding the legal status of appraisals done by the

Central Auditing Authority (CAA)

- Another source of the confusion surrounding appraisals arises from the circumstance that no single method is recognized as the standard. The two commonly used methods are: Discounted Cash Flow and the Adjusted Replacement Value methods.

Articles of Association

- The Articles of Association of the company in privatization should be amended to conform to Law 203.
- Due to the nationalization laws, and other later company, investment and commercial laws, the Articles of Association of some ACs do not reflect recent changes. In order to assure continuing validity of Articles of Association they must be amended.

Commercial Registration

- Entries in the Commercial Registry should be reviewed for validity. It should contain clear references to a company's branches, industrial plants, all activities, and should be amended to reflect the actual activities of the company.
- In the case that an entry in the Commercial Register does not exist, for a stand alone branch, subsidiary or a factory one should be created.
- Include a statement that empowers the company to sell its assets.

Tax Cards

- Should exist and be maintained up-to-date.

Import & Export Card

- Should be valid, and current.
- Specify the goods imported or exported.

Licenses, Franchises and Permits

- Valid up-to-date licenses, permits and franchises relating to all the activities undertaken by the company and all concessions granted to it.
- Verification of the ability to transfer or assign to the prospective investor of such licenses, franchises and permits.

Litigation

- Identification of all the outstanding legal actions by or against the company.
- The sums in dispute, subject of litigation, could substantially effect the sale-price of the company.
- Some companies targeted for privatization treat litigation matters very casually, and no appropriate mechanisms are instituted in place for a timely follow-up.
- Unsettled litigation claims if not duly identified and quantified are carried over to the books of the acquirer, since the acquiring company is a legal entity, and not a natural person.
- Failing to duly identify outstanding litigation could potentially criminally implicate the seller as committing a fraudulent act of misrepresentation.
- Mr. Hassan noted that the prospective investors mobilize contingents of international professional advisors from specialized consulting houses for the conduct of due diligence.

- The message for the HCs and Acs is: To identify problems early on, and work on solutions ;that they fulfill their responsibilities as sellers before the professional advisors of the prospective investors begin their due diligence.
- Mr. Gamil Mossad, advisor to the Minister of the Public Enterprise Sectors, and Restructuring Expert of the PEO, recommended the creation of a unit within the company that would be solely dedicated to administering litigation. An information system should be established with the capability to automatically update on a timely basis the status of outstanding cases and assign accountability for timely follow up. Mr. Mossad urged that the CEO of the company be informed in a routinely, on a periodic basis of the status and progress of each case.
- Mr. Hassan, prominent judge, author of legislation, and a lawyer, blamed the ACs for neglecting active follow up of outstanding cases in the courts. He admitted that courts can be slow in processing commercial cases, however, he strongly advises companies to actively monitor the progress of these cases. He was convinced the process could, through active monitoring, be dramatically expedited.
- Mr. Hassan gave disconcerting examples of company management grossly neglecting exercise of rights relating to litigation decided in their favor, for simple lack of effort to remain informed. These cases resulted in substantial financial loss.
- However, Mr. Hassan believes that the court system needs to be further developed.

Taxes

- Mr. Hassan urged the company selected for privatization to review its tax situation with the relevant and competent tax authorities. Management should obtain a statement confirming that all taxes have been paid.
- Mr. Hassan remarked that the company might be liable for various taxes such as: Income, Stamp Duty, Sales, Import Duties, and, very importantly, Real estate taxes.
- The interest due on unpaid taxes due could accumulate into significant sums with the passage of time.

Deeds of Ownership

- Because of Nationalization in 1961, the ownership deeds and other pertinent ownership documentation may not be in proper order.
- Certain recommendations were made to establish a section in the company to verify the accuracy, monitor, and the keep safe deeds of ownership of real estate. The company should be wary of infringements of ownership occasioned by changes on the property not reflected in the available documentation, such as: Easements and rights of way, and other inchoate interests not recognized in the company's records.

Social Insurance

- These liabilities could represent off balance sheet liabilities, and can be substantial.
- As with taxes, certifications to the effect that all social insurance liabilities have been timely met and paid should be obtained from the competent authorities.
- Mr. Hassan again emphasized the willingness of the prospective investor to examine every detail. His message to the HC is: To do things correctly from the start, which should, in the final analysis, reflect favorably on its credibility and the successful consummation of the sale.

Insurance Policies

- All the relevant types of insurance policies (fire, buildings, theft, etc.), should be renewed, and in good stead.
- All premiums due should be fully paid.

Contractual Obligations

- All kinds of contractual agreements and obligations to which the company is a party, must be very clearly, openly and fully disclosed.
- The company should not incur new contractual obligations outside of the ordinary course of business after the Tender for the sale of the company is announced.

The Environment and Conditions of Labor:

- The company should review its compliance environmental laws, and regulations; specifically Law 4.
- Foreign investors are extremely sensitive to issues of environmental liability. The company on sale should not take its adherence to environmental protection laws and regulations lightly.
- Labor conditions, compliance with child-labor laws and related social legislation should be fully observed by the company.

Trade Marks & Intellectual Property

- Insure the proper registration and validity of Trademarks, patents and all other intellectual property in a manner that protects, unequivocally, the rights of the company.
- The company on sale ought to designate an employee to administer these matters.

Suppliers, Agencies & Distributors

- The company should maintain at all times a register recording, in very clear terms, the agency agreements to which the company is party, as well as a list of suppliers and a list of all distributors.

Inventory

- Establish a realistic basis for the valuation of the inventory. Book value could misstate market reality.
- The example was noted of the unrealistic valuation of the inventory of the Papers Company; fourfold the market value. In this case the CAA enforced a mistaken appraisal not reflective of the market.

Leases

- Special attention should be paid to the validity of lease contracts and their enforceability.
- Certain leases might be of value by virtue of locations, duration and right of use. However, absent monitoring and close administration the company might find itself in default, thus forfeiting a valuable intangible asset.

Legal Books

Company By-laws

- Particular attention should be paid to the company's By-laws. The company should try to reconcile its By-laws, without prejudice to its binding obligations, especially to its labor force and employees, with the requirements that would facilitate the sale, and not place unnecessary and undue burden on the acquiring party.
- The company should refrain from changing the By-laws intentionally in advance of sale, in a manner designed to unduly benefit the employees. No changes should be introduced to the company's By-laws effective the date of announcement for invitation to tender.

Company's History

- A full account of all the developments that the company underwent since inception, especially in view of transfer of ownership and changing legal situation, should be prepared.

Registration in the Stock market

- Requires the reconciliation of the Articles of Association to Law 159, governing the Joint-Stock companies, so that the company can qualify to be listed in the stock exchange.

- An example was given of a Joint Stock company having discovered that its capital was not divided into shares as its Articles of Association were not modified to allow this.

Financial Statements

- The AC should have available complete and duly audited financial statements for the past five financial years.
- Preferably, the financial statements should be formatted so they would correspond to International Accounting and Auditing Standards, or can be more readily reconciled and reformatted to such standards.

Information Memorandum, Prospectus and Instructions to Bidders

- They should be comprehensive, accurate, and provide full disclosure and transparency.

EVALUATION

A column in the attendance sheet is reserved for evaluation of the session by each attendee. The rating was as follows:

- *Excellent* 15 (All fifteen attendants)

The audience was interactive, and many attendees participated in the discussions, often asking very pointed questions relating to the specific situations of their companies.

Investment Banking Services for Egypt

Fifth Project Event

Seminar for the National Building and Construction Co.

The Role of Investment Bankers in Privatization

December 6, 1999

Introduction

In continuation of the series of project events to highlight issues in privatization IBTCI organized a seminar, for the benefit of the National Building and Construction Company (NBC).

The main topic concerned the role an investment banker can play to expedite the sale of public companies. The meeting was held, at the request of the PEO, on Monday, December 6, 1999, at a banquet hall in the Meridien Heliopolis Hotel. The event was organized with the assistance of Mr. Ahmad Al-Sayed, Chairman, NBC. Mr. Mohsen Hassan, was the moderator.

The participants were senior executives of the 7 Affiliate Companies ("AC") of NBC, as well as the chairman, vice-chairman, and director of privatization of NBC. Additionally, CEOs of two investment banks were invited to speak.

Purpose of the Seminar

The Building and Construction Holding Company is preparing five ACs, for privatization. As they appear suitable for sale to a strategic investor an investment banker should be able to effectively assist with these sales.

This seminar provided a forum for open discussion about the services an investment banker may provide to facilitate transactions.

Attendance

31 people participated in the seminar:

National Building and Construction

Six persons, including:

The Chairman
Three Members of the Board
Director of Privatization

The Affiliate Companies

Nineteen persons, representing the following ACs:

Misr Aljedeedah Company for Housing & Contracting

Three persons, including the Chairman
Al-Ma'ady Company for Development and Construction

Two persons, including a Member of the Board
The Egyptian Contracting Company

Three persons, including the Chairman of the Board
The Egyptian Joint-Stock Company for Contracting

Two persons, including the Member of the Board
The Egyptian General Company for Buildings

3 persons, including the Chairman of the Board
Bahr Al-Ahmar General Contracting Company

3 persons, including the Chairman of the Board.
The Arab Foundations Company

3 persons, including the Chairman of the Board.

The Investment Banks

International Investment Advisors, Mr. Hasan Hussein, CEO
 International Development Consultants, Dr. Farouk Nasser, CEO

IBTCI

Mr. Charles Jelinek-Francis
 Mr. Rajai Masri
 Mr. Mohsen Hassan

Points of Discussion

The Holding Company

- Mr. Al-Sayed emphasized that the program of economic reform and privatization has been the salvation of the Egyptian economy. He stated that the public sector prior to the initiation of privatization reached the point of near collapse as a result of the general condition of the companies in that sector
- He asserted that of privatization, especially during the last three years, has been an overwhelming success. Despite the lack of liquidity in the economy, many public sector companies have restructured and revitalized themselves without prejudice to the interests and rights of the employees and creditors.
- With regards to the National Building & Construction Holding Company, has a portfolio of 24 of the Acs of NBC (4 housing, 20 contracting companies); of these 12 of the 20 contracting companies were showing, as of June 30, 1996, large losses. The remaining 8 contracting companies were barely profitable.

The choices were to either liquidate the majority of these companies, or effect major restructuring requiring tremendous financial resources. The total debt owed by the affiliate

companies, excluding current accounts payable, stood at EL 3,100 million, an immense sum, given the actual state of the companies' balance sheets.

- Mr. Al-Sayed stated with regard to debt restructuring, that the HC succeeded during the past three years to lower the debt level by repaying EL 700 million to the banks., This repayment aided the ACs (better financial structures, and lower cost of servicing debt), as well as, avoid helping hinder a national banking crisis.

The stock market, three years ago, was flourishing, and liquidity conditions were excellent. The HC privatized, by public several ACs, in the housing sector. The stock offering was oversubscribed, and the companies at a multiple of the price expected. Mr. Al-Sayed was quick to note that housing companies, such as the Town of Naser Company and Shams Company, were attractive to investors, if for no other reason than for the value of their land.

- However, Mr. Al-Sayed, pointed out that usually contracting companies are, in comparison, less attractive to investors than the housing companies. *The contracting companies, in his view, are unique, and assessing their true value can not be accurately accomplished except by those who understand that business.*
- He went further to explain his assertion, that, unlike companies in manufacturing industry, contracting companies' true value does not reside in the tangible assets that the company owns, but rather in the effectiveness of its management, and existing contracts (work in progress). Thus, the basis of valuation differs according to the ability to discern the specifics differentiating a strong company from a weak one. *The obvious message on this account is directed to the investment promoters.*
- Prior to the change in the conditions on the stock market, the HC's policy was to maintain a certain measure of control of companies sold to the general public. The purpose was to insure a smooth transition and the continuing (?) successful operation, as ongoing concerns, of the privatized companies. This was done by the retention by the HC of approximately 20% ownership of the sold company's stock, until the company conditions had stabilized. Then the HC's stake would be sold to an anchor/strategic investor.
- *Mr. Al-Sayed noted that the market conditions now have changed. The only option for a sale strategy is through sale to anchor/strategic investor. The task is now more daunting as contracting companies are less attractive to an investor when compared with housing companies owning tangible assets.*
- Mr. Al-Sayed outlined some desirable attributes of a prospective strategic investor; foremost among them the investor: *Must be in the same field of business as the construction company to be acquired.* To emphasize this issue, Mr. Al-Sayed reiterated the uniqueness of contracting as a field of specialization, requiring totally different standards with regard to measuring and assessing value.

IBTCI

Mr. Francis welcomed the audience, briefly summarizing the purpose objectives of the seminar.

Mr. Rajai Masri then followed with a presentation He discussed the role of the investment banker or promoter in the sale of companies and the methodology for their selection. He

based his presentation on a **Working Paper** prepared written in Arabic by IBTCI, and distributed to all participants. (A summary translation is attached, below).

- Mr. Masri emphasized the central theme of the discussion: Maximizing the realizable value/price; and the integral role played by the investment banker as an intermediary for effecting the sale.
- After explaining the conditions and customary financial obligations of an investment banker he highlighted the pro-active, versus the passive, role an investment banker can play to add and create value in a deal.
- Mr. Masri enumerated and discussed the different functions an investment banker would perform to facilitate the sale and enhance the value of the company. He emphasized the necessity for an investment bank to be fully integrated, and act as a full partner to the company on sale while preparing it for privatization, particularly with regard to participation in building an accurate and reliable data base of information pertaining to the company's operations and financing.
- The role of the investment bank in establishing a fair value for the company, on the basis of in-depth analysis, and the company's potential, was emphasized., The active participation of the investment bank in managing the tender process, from the preparation of the tender documents, to point of sale were highlighted.
- Mr. Masri pointed out, that one significant attribute an investment bank must have, given the sale strategy to seek anchor investors, is its international reach, and a proven capability of an extended network of business and investor relations.
- Finally, he discussed the list and contents of tender documents, and the evaluation process for the selection of the investment banker. Special attention was accorded the required contents in the technical and in the financial proposals, ending the presentation by recommending the inclusion of a schedule for a time frame for the tender from beginning until award of contract.

The Investment Banks

The International Investment Adviser

Mr. Hassan Hussein, CEO, Secretary General of the Egyptian Capital Market Association (ECMA), and Director of the Investment Promotion Section.

- Mr. Hussein began by stating that the contracting companies suffer from a combination of financial problems: Overwhelming debt, the bulk of which is governmental. Mr. Hussein considers the debts an issue that must be addressed.
- The contracting companies are highly leveraged, whereby the equity base is relatively small compared to total assets.
- The inventory of work-in-progress, is very high. (An allusion to the insufficiency of the working capital, and the under utilization of resources.).
- Debt servicing, especially interest cost, is very high, eroding profitability.

- With regard to the promotional campaign for the sale of contracting companies, its success depends upon timing. Mr. Hussein reckons that market conditions are not conducive to effecting successful sale of contracting companies. He reiterated that the economic situation changed dramatically since the sale of the Town of Nasr Company in public offering three years ago. He noted that the real estate market is down, there is a liquidity crunch, and the stock market is down.
- Mr. Hussein reminded the participants of the cyclical nature of the construction industry. He pointed out that the construction contracting industry is the first to experience a slump when economic activity shows signs of a slow down. It is also the first to herald economic recovery with the increased contracting activity. is the time is not currently optimal for the sale of either contracting or housing companies.
- Mr. Hussein also reminded the audience of the objectivity of valuation. On the premise that the value of a contracting company resides in the size of the contracted future works, he pointed out that thus far the bulk of works contracted by the ACs are government contracts. The question becomes, would that continue once a company is privatized? He rightly believes that once privatized, a building contracting company would need to diversify and expand its non-governmental works, and accordingly the basis of valuation should be revised.
- Mr. Hussein anticipates difficulty in effecting, at this particular time, optimal sale of general contracting companies in both the local and to foreign strategic investor in particular. However, he believes that specialized contracting companies, such as those in electrical and in petroleum, would always have prospective strategic investors, especially foreign, who would be willing to acquire them.
- Mr. Hussein drew attention to the mistaken ideas that many HCs and their ACs hold about the role and duties of an investment promoter/banker. He stressed that the investment bank/promoter should not be looked at as a passive broker who adds no value. He emphasized that the investment bank/promoter has an active role to play in close conjunction with the HC in determining a fair value for the company. He further indicated that an investment bank/promoter should maintain a strategic alliance with an international investment bank/promoter with *capacity to place the investment*.
- He expressed concern at preferential role accorded local commercial banks by the HCs in the promotion of ACs. He commented that one explanation for this may be that the participating major commercial banks and the ACs to be privatized are both public sector entities belonging to the same owner: the government.
- Mr. Hussein questioned how a commercial bank would enter into an agreement to promote the sale of an AC without charging any fees. In his view, under such conditions the bank couldn't undertake any serious effort to promote the sale. The holding company, therefore, receives no meaningful services with the obvious result: *a less optimal sale*.
- Mr. Hussein protested that the preferential treatment accorded the public sector banks by HCs, is evidenced by non-competitive selection practices of the Acs. This is unfair competition placing other non-commercial banks and qualified investment promoters at a disadvantage.
- Mr. Hussein remarked that the promotion of the sale of an AC abroad is synonymous to marketing the Egypt, itself, This necessitates presentation of the country's present economic conditions, and the outlook for its economy

International Development Consultants

Dr. Farouk Nasser, CEO

- Dr. Nasser spoke briefly about himself and the works his company undertook in the to facilitate the sale of of ACs to strategic investors.
- Dr. Nasser explained that his Ph.D. degree was in civil engineering. He was a professor at Cairo University, and has 25 years experience in the investment field. many years were spent as an executive with a international investment banks, among them Solomon Brothers.
- Dr. Nasser’s company just advised in the sale of Alexandria Cement Company to the British firm Blue Circle. It also acted as the investment promoter for the successful sale of the Beni Sweif Cement Company, sold to the French company, Lafarge.
- Dr. Nasser emphasized that the investment promoter should be considered an integral part of the managerial team of the HC during a privatization sale..
- The HC should engage an investment promoter very early on, to help formulate the strategy of sale, and actively participate in the process of valuation. He indicated that notwithstanding the formal valuation submitted to the Central Auditing Authority (CAA), the investment promoter and the management of the company need together to establish a fair value for the company.
- Among the criteria for the selection of an investment promoter, Dr. Nasser emphasized previous experience in the area of the target company’s specialization.
- *Enhancement of value* is the central objective for hiring an investment promoter. *Timing of sale* is the most crucial element to effecting successful sale.
- Dr. Nasser divided the tasks to be undertaken by an investment promoter into two broad categories:
 1. Understand the reality of the company’s situation from all aspects, and develop the requisite strategy for the sale (“Diagnostic Analysis”).
 2. Launch the sale-promotion through a network of business and investment contacts in both local and international markets, together with the use of ”road shows”.
- Dr. Nasser also noted that the investment promoter should play an active role in the tendering process.

Salient Points during Discussion

After the speeches, candid and animated discussion ensued. This continued for nearly one and a half hours. Active participants were the chairman of the HC, a number of the chairmen of the ACs, the CEOs of the investment promoter companies, Mr. Mohsen Hassan of IBTCI, and Mr. Gamel Mossad, advisor to the Minister of Public Enterprises.

- Mr. Mossad was critical of the investment promoters/bankers. His observed that the investment banks in Egypt operate more like commercial banks. He believed that the

HCs resorted to commercial banks instead of investment banks to promote the sale of their ACs, because they are not convinced the investment banks in Egypt are capable of doing the job.

- Mr. Mossad advised that the investment banks need to build the bridges of mutual confidence and trust with the HCs.
- Mr. Mohsen Hassen interjected that in his view the management of the HCs tend to favor commercial banks because of several reasons:
 1. To absolve themselves of any possible future accountability, since both belong to the same owner, the government
 2. Public sector enterprises are not accustomed to pay fees to financial intermediaries in the customary high ranges of 2 to 5 %, especially when the sums involved are substantial. Thus HCs prefer to pay to the commercial banks a much fee as insufficient as of 2 per mil.
 3. The small fee results in poor performance, and even the collapse of the deal. Examples of insufficient quality of representation can be seen in the Information Memoranda prepared by some of commercial banks. By contrast, the work done by a certain qualified investment promoter resulted in enhancing the sale price significantly.
- Dr. Nasser re-stated that valuation must be carried out with the full participation of a qualified investment promoter/banker., He offered as a cautionary example the case of a company which was sold at the price appraised and authorized by the CAA. This price was actually much less than that established by independent appraisal undertaken by an expert investment promoter had suggested. A vivid example of “Value Added”.
- Dr. Nasser spoke of underwriting, and advised it wouldn't be in the interest of HCs to contemplate it when dealing with investment promoters. His explanation was, that the underwriter would try to negotiate for the lowest flotation price possible to hedge the market risks he would face when placing the stock.
- Mr. Ahmad Al-Sayed said he needed to dispel the wrongful impression that management of the HCs exaggerate the appraisals in order to prevent ultimate sale, and prolong their jobs. He made it clear that the majority of managers in the public sector enterprises are very qualified by private sector standards. He further noted that many successful managers operating in the private sector now were managers in public sector companies.
- Mr. Al-Sayed observed that during the stock bull market, the HCs could sell directly to the investors without the needed intervention of investment promoters.
- Mr. Al-Sayed went on to explain that the HCs were not passive in the process of valuation. They discussed, negotiated and argued with the representatives of the CAA. Moreover, his HC closely interacts with the market, gauges market moods and monitors its directions. The HC establishes the value of the company to be sold with full appreciation of the timing, and the reality of the market forces.
- Mr. Hussein attempted to address Mr. Mossad's crisis of confidence thesis, pointing out that investment promoters had been formally pre-qualified. The PEO short list,

includes 41 pre-qualified investment promoters. He added that the list was compiled from a roster of 120 investment promoter candidates. In his view, a great effort went into producing that short list, and the companies on that list have built a good track record over the years.

- Mr. Mossad believes that very few on that list qualify given the changes in the stock market. In Mr. Mossad's view, confidence cannot be predicated on supposed qualifications, but rather on performance.
- Mr. Al-Sayed stated his views as to building trust and confidence. He referred to the necessity that the promoter commit himself to effect a sale within a given time. Otherwise, he suggested, the investment promoter be financially penalized for failure to complete the transaction. He suggested that the investment promoter should submit a letter of guarantee for his performance in this regard.
- Mr. Hussein explained that the investment promoter does not want to fail therefore before accepting a mandate he customarily first conducts a *market sounding*. If the judgment of the investment promoter is that the market is not receptive to the deal, he would then decline the assignment.
- Mr. Ghannam, the Chairman of the Board of the AC, Mukhtar Ibrahim, talked of a case study, to reinforce the criticism of the performance of investment promoters. He stated that it took an investment promoter three years to promote the sale of a company, which failed, and that the investment promoter himself declared bankruptcy.
- Another point of contention is fees, particularly, retainer fees.
- Dr. Nasser in supporting the concept that both a retainer fee, and a success fee, should be paid to the investment promoter, said that investment bankers would much prefer to represent the buyer who often pays much higher fees than what the seller would pay.
- Mr. Al-Sayed believed that no retainer fee need be paid, but rather only a success fee. In his view, the potential of incurring non-reimbursed expense, ought to act be motivation for the investment promoter to successfully complete the transaction.
- Mr. Ghannam, strongly criticized investment bankers' trading practices in the stock market. He was referring to those investment banks who, beside corporate finance, manage securities portfolios and securities funds. He spoke of examples of manipulation and unfair practices.
- Mr. Hussein responded in his capacity as the Secretary General of ECMA, that a complaint should have been lodged with the Capital Market Authority, and with ECMA. That action would have triggered a full investigation of the abuse as well as disciplinary action and possible termination of the investment companies' activities. Mr. Hussein indicated that financial services companies are obligated to establish "*Chinese Walls*", to avoid insider trading, and separate the different competing services within the firm.
- Mr. Shahawi, Chairman of the Board of Misr Aljededah for Housing and Contracting made the observation that the contracting market was severely affected by governmental social. policy, particularly relating to construction and general liquidity.

- Among these are the decrees preventing commercial banks from lending for the acquisition of companies, and the freeze on issuing building permits in certain zones. The problem is the general economic situation and lack of liquidity; macro-economic conditions that render the role and tasks of the investment promoter daunting and untenable.
- It was noted with regards to building contracting, the local market is saturated, and what is needed is to locate willing international strategic investors.

EVALUATION

Mr. Ahmad Mohamad Al-Sayed, the chairman of the board of directors of NBC gave his assessment of the meeting in the following words, which he incorporated in a letter, dated December 11, addressed to Mr. Fouad Abdul Wahab, the Director of the PEO:

“ We thank you for your real assistance, and complete transparency that marked the discussions that took place during the meeting on Monday, December 6, 1999.”

He goes on to further say in the aforementioned letter:

“The meeting is rated excellent by all accounts, in particular the technicalities relating to the methodology.”

AGENDA

The Fifth Project Event

The National Building & Construction Holding Company

December 6, 1999

Venue	Meridien Heliopolis Hotel
10:00 – 10:15 a.m.	Opening speech – Mr. Ahmad El-Sayed, Chairman National Building & Construction Holding Company
10:15 – 10:40	IBTCI Speakers Welcoming Speech – Mr. Charles Jelinek-Francis Role of Investment Bankers in Privatization – Mr. Rajai Masri
10:40 – 11:20	Investment Banks' Speeches Mr. Hasan Hussein, CEO Int'l Investment Advisor Dr. Farouk Nasser, CEO International Development Consultants
11:20 – 11:45 a.m.	Refreshments
11:45 – 13:15	Question & Answer Session – Open Discussions

(Synopsis in Translation)

Working Paper

The Fifth Project Event

The National Building & Construction Holding Company

Page 1

The National Building & Construction Holding Company

The Role of the Investment Promoters, and the Methodology for their Evaluation and Selection.

A Strategic Investor

Page 2

Table of Contents:

Introduction

The Main Objective, the Ultimate Purpose

Justifications for Engaging the Services of an Investment Promoter/Banker

Conditions & Financial Commitment of the Investment Promoter

“Added Value”: Negotiating from a Position of Strength

- The Role of the Investment Promoter
- Assist in preparing the company for sale.
- Effect the sale placement.
- Assist in the preparation of the Tender Documents, and the process of Tender solicitation
- Setting guidelines, Tender evaluation process.
- Assist in the consummation of the sale.
- The Short-list and Tender Documents for selecting an Investment Promoter/Banker.

Page 3

Heading: The Main Objective, the Ultimate Purpose
Content: Achievement of the Optimal Value/Price

Page 4

Heading: Justification for soliciting the services of Investment Promoters/Bankers
Content: Attractiveness (desirability) of the Investment

- An attractive Investment
- A less desirable Investment.

Sale strategy:

- Public Offering
- Strategic/Anchor Investor

Page 5

Heading: Conditions & Financial Obligations of the Investment Promoter
Content: Underwriter/ Guarantor and Agent

Page 6

Heading: Adding Value: Negotiating from a Position of Strength
Content: Promoter's Skills

- The promoter's technical, organizational, managerial and management systems capabilities, and strategy and method of work.
- The promoter's acquaintance, and familiarity with the industry and business-activity of the company subject of sale; knowledge of the financial, technical, managerial, marketing and competitive aspects of the company's operations. Ability to portray actual value and potential to investor.
- The promoter's full understanding of the market forces at play, based on analysis. By extension, a knowledge of players in the market who could qualify as potential strategic investors.
- The ability of the promoter to highlight the benefits of the deal, and the competitive advantages of the company; the ability to assist in formulating competitive strategies, to enhance the company's value and prospects for sale, to construct a business plan based on convincing assumptions and logical projections.
- Possess an extended web of business contacts, and an extended reach that would improve the chances of identifying and attracting the desirable candidate investors.
- Creativity, and ability to conceptualize and structure optimal financing of the deal; knowledge and reach in the financial markets to advise on the source of the funds to consummate the sale.

Page 7

Heading: The Role of the Investment Promoter

Content: As in the table of contents, above, with further elaboration in pages 8, 9, 10, 11 and 12, below.

Page 8

Heading: Preparing the Company for Privatization/Sale
Content: Data Compilation

- Participate and assist in the valuation of the company. This is based on the promoter conducting a reasonable degree of due diligence, financial analysis, assessment of the investing market conditions (timing) to establish - to the promoter's satisfaction, - a realizable fair value of the company.
- Assist in compiling the requisite audited data, information and documents about the company to include in a comprehensive "*Information Memorandum*." This with the purpose of facilitating and expediting the performance of due diligence by the prospective investor.

Page 9

Heading: Promoting the Sale – Placement Power
Content: Market Analysis

- Draw a work-plan (strategy) for privatizing the company, with the object of achieving the highest feasible realizable price. This is in conjunction with a well- defined schedule for effecting the sale.
- Conduct an in-depth, comprehensive study on prospective strategic investors, drawing on the widest base possible, and prepare a report with full analysis on the prospects for sale.
- Engage the promoter's network to identify prospective investors, and disseminate information about the company, high-lighting its potential and salient features to attract the desirable investors. Communicate with prospective investors, answer their queries as they arise.

Page 10

Heading: Assist in the Preparation of the Tender Documents, and the Invitation to Tender

Content: Sale Documents

Assist in the Preparation of all the Tender Documents, including:

- Terms and Conditions
- Information Memorandum
- A sample contract
- Assist in the design of the advertisement of the Tender Solicitation and the guidelines of procedures to follow.

Page 11

Heading: Establishing Guidelines and Assisting in the Evaluation of Tenders.
Contents: Procedure

- Assist in designing detailed guidelines for procedures; evaluate Tenders.
 - Establish procedures to assure full transparency.

Page 12

Heading: Consummating the Sale
Content: Final Negotiation

- Assist in formulating the letter to the winning bidder.
- Assist in formulating negotiation strategies, and assist in the details of the final negotiations with the winning bidder.
- Assist in the design and preparation of the legal documents, and assist in all the steps and procedures to successfully consummate the sale in conformity with the contractual conditions.
- Assist in the procedures to registering and listing the sold company in the stock market.

Page 13

Heading: The list and content of Tender Documents for selecting the Investment Promoters
Content: Documents

- The Invitation to Tender
- Terms and Conditions
- Terms of Reference
- The requirements in the Technical Proposal
- The requirements in the Financial Proposal
- General information regarding the company subject of sale
- The time schedule until the award of contract

Page 14

Heading: The Content of the Technical Proposal
Content: Bid Documents

- Detailed analysis of the method and plan of work.
- A detailed schedule for achieving each element/component/task, along with the promoter's plan to compiling a short list of prospective strategic investors.
- Description of the suggested working team for the project, along with diagrams and charts describing the organization of the work team, and clear definitions of responsibilities and authorities of each individual.
- A profile, or a Curriculum Vitae of each member of the proposed work team.
- List the relevant experiences and relevant strengths of the bidding investment promoter.

Page 15

Heading: Content of the Financial Proposal
Content: Fees:

- Retainer Fees
- Success Fee

Page 16

Heading: The Time Schedule to Awarding the Contract
Content: Sequence of activities from announcement inviting to tender until final award of contracts.

Investment Banking Services for Egypt

Sixth Project Event

Workshop for the Maritime Holding Company

Prospects for Alexandria Shipyard in Privatization

December 7, 1999

Introduction

The workshop was held on Tuesday, December 7, 1999, in Alexandria, Egypt, at the offices of the **Maritime Holding Company** and two of its affiliates: **The Alexandria Shipyard Company** and **The Container Handling Company**.

A first meeting took place at the offices of the Holding Company. A second meeting was held at the offices of Alexandria Shipyard Company, at Alexandria Port. A third meeting took place at the location of the Container Handling Company, also at Alexandria Port. A final, summary discussion took place in the offices of the Holding Company prior to departure.

The object of the workshop was to become familiar with the privatization program of the Holding Company (hereinafter HC), and discuss sale strategies and obstacles to the sale in privatization of the two affiliate companies.

Maritime Holding Company

Attendance

Maritime Transportation

Mr. Atef Marouni, Chairman/CEO
Dr. Abdul Kader Lashine, Senior Advisor
Mr. Zaki S. Zakaria, General Manager Investments/Head of Privatization
Mr. Nabil Dwedar, Assistant General Manager/Investments

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai R. Masri
Mr. Mohsen Hassan

Points of Discussion

- A short welcome speech by Dr. Lashine, followed by review of the HC's expectations.
- Mr. Charles Jelinek-Francis stated the purpose of the workshop, emphasizing that our primary task is to provide guidance in how to deal with investment promoters/bankers

- Mr. Mohsen Hassan further explained IBTCI's mandate and scope of work. He indicated that the consultative nature of IBTCI team's mandate might permit a cursory diagnostic review of Maritime affiliate companies.
- Mr. R M emphasized the consultative nature of IBTCI's task as outlined in the USAID Scope of Work.
- The HC chairman, Mr. Marouni, highlighted the fact that Maritime Transportation ("Maritime") is a special case. Unlike other HCs, the activities of the affiliate companies of Maritime are conditioned and constrained by the international/global market.
- He gave an example of shipbuilding, an activity of Alexandria Shipyard, which is more and more dominated by shipbuilders in Asia. He suggested that Egypt does not have a competitive advantage in shipbuilding.
- Moreover: Egyptian entrepreneurs do not qualify as prospective anchor investors. This is because of the global, as well as the capital-intensive nature of the affiliate company business.
- Mr. Marouni also explained that the shipping business is becoming more integrated; that mergers have forged new competitive in the shipping industry throughout the world.
- Mr. Marouni made it clear that an international anchor investor would be the obvious candidate to undertake the privatization of the affiliate companies within Maritime. *It appears to him a fundamental question how to create the right formula to attract a prospective strategic investor.* He seemed to suggest a combination of preparatory steps, including restructuring, elimination of some unprofitable activities (shipbuilding), and exploitation of the great value the HC's real estate holdings.
- Mr. Marouni emphasized the need to conduct more in-depth analysis of the affiliate companies. He emphasized again that international operators in ship transportation are operating more and more within an integrated system. "Linkage", is, in his view, the crucial factor in the success of marketing in the shipping industry. He indicated that the industry is fast becoming "inter-linked," 30% computerized to-date, and the balance of 70% well underway for computerization.
- Mr. Marouni further described his vision for the future. He believes that greater efficiency, optimization, and expanded facilities are the factors which guarantee a competitive edge for aspirants to becoming an international hub, as he would wish for Maritime's two affiliate companies
- Mr. Marouni believes the Container Handling Company is competitively the best positioned to handle container traffic in the Eastern Mediterranean. The container handling business planned for Port Said is targeting the trans-shipment business and targeting feeder traffic. As a future competitor, the maximum share Port Said can take from the Container Handling Company's market should not exceed 5-15% over the next 10 years.
- Mr. Marouni spoke generally of the affiliate companies' strengths, and the programs underway to improve their efficiencies and competitiveness. He talked about an automation program and introduction of various automated subsystems. He emphasized continuous training of the labor force and management and that the

shipyard has on its premises a Maritime Training Institute, which, according to international standards, is one of the best. Its certifications are acknowledged worldwide.

- Mr. Marouni emphasized the potential of the Container Handling Company's growing business. He stated that containerized trade with Egypt stands now at a mere 1.5 million metric tons, against a potential of 9 to 11 million metric tons. 80% of Egypt's trade is handled through the Port of Alexandria.
- Mr. Marouni sees a need to further improve efficiencies in order to attract shippers, and in particular improve on the time of handling containers. He would develop a system of door-to-door container handling if customs barriers can be overcome.
- Regarding sale of the affiliate companies, Mr. Marouni made it clear that this is a strategic decision affected by considerations of general company strategy and will require further consideration.
- Mr. Marouni seemed to advocate a "*Management Buy-out*" concept, in the nature of a long-term concession.. He indicated that Maritime Transportation Holding Company is awash in liquidity, and that it realized profits of EL 538 million in 1998.

Alexandria Shipyard

The IBTCI team, accompanied by Holding Company personnel, visited the offices of Alexandria Shipyard and the Container Handling Company situated in the restricted area of the Port of Alexandria

Attendance

Maritime Transportation

As above, with the exception of Mr. Marouni, Chairman.

IBTCI

As above

Alexandria Shipyard

Mr. Hussein Mohamed Sinnara, Managing Director
Mr. Hassan A. Abouraya, Director of Information and Market Research

Points of Discussion

- Mr. Abouraya gave a presentation of the company's history and activities.
- The company has been in existence since 1960, and conducts its activities out of an area of 400,000 square meters, at the Port of Alexandria. The company's main activity is shipbuilding augmented by other steel construction activities. The company contracts primarily with foreign shipping lines and ship-owners. It builds ships of up to 35,000 dead metric tons, according to designs furnished by the owners.

- In addition to construction of dry cargo ships, the company constructs:
 - Ro-Ro ships
 - Containerized freight ships
 - Tankers
 - Pleasure boats
 - Passenger-car ferries
 - Offshore oil-drilling rigs
 - Gantry cranes
 - De-dusting systems
- The company has design and engineering capability to construct ships up to 35,000 dead metric tons, and various large steel structures.
- The company disposes of all the ancillary activities of a metal-works, as well as engineering, machining and tooling workshops necessary for the work of ship-building and construction of other steel structures.
- It appears the company underwent a recent management change. The company has been in the red for quite a while, and proved a drain on the Holding Company's cash.
- The Company underwent recently a debt-, and labor-restructuring in order to contain cost and prepare for privatization. As part of balance sheet cleaning, all the debts on the books of the company were transferred to the books of the HC.
- The labor force was cut from approximately 5,000 to 2,582. The management has an objective to bring the number down further to a level of approximately 2,000 employees, a goal that does not appear readily achievable in the near future, given various social and political considerations.
- The present level of manpower, at close to 2,600, renders the cost of production high. Compared to the cost in Korea, and other Asian markets, it is reckoned shipbuilding is at least 30% higher here.
- The labor restructuring program entailed sub-grouping labor into three categories to be invited to subscribe to early retirement compensation packages:
 - Men of 50-58 years of age;
 - Women of 45 years of age;
 - Men and women of 20 years of employment with the company, of the ages 50 or below for men, and 45 and below for women;
 - **Men and women of years of employment that is less than 20 years, which does not entitle them to receiving retirement salaries beside the compensation package.**
- Industrial relations seem not optimal between workers and the management. This renders further cuts in the labor force problematic and is a sensitive political issue.
- It also appears, that the previous management was not effective. Alexandria Shipyard does not enjoy a reputation for commercial reliability by virtue of a history of delays, mistaken pricing and cost over-runs.

- The management of the Alexandria Shipyard now contemplates new corporate and business strategies for the future. The management developed a strategy, not necessarily final, and is open to more in-depth analysis, and marketing information. This new corporate strategy calls for abandoning shipbuilding due to the lack of competitiveness. Instead, the management identified three new areas of specialization, which it believes the company can perform more efficiently and competitively, in a growing market.

The three activities are:

- Ship repair and maintenance
 - Ship breaking/stripping
 - Engineering and metal structures
- The management is convinced that with present infrastructure the trained labor-force, proven engineering capabilities, capacious, strategically located plant and storage area, the company would be in a competitive position to carry out these new activities.
 - It appears that an in-depth study should be undertaken to examine the validity of the assumptions by the management. This appears a necessary prelude to privatization and establishment of a realistic price.
 - The approach, in this regard, should be to:
 - Conduct in-depth technical audit and due diligence to examine and establish the true capabilities of the company;
 - Conduct a market study in view of the perceived strategies outlined above;
 - Combine the general strategies with the findings of the market study to develop a marketing strategy;
 - Develop various scenarios for a marketing strategy;
 - Assess the capital investment requirements, training and technical requirements to carry the various marketing strategies;
 - Perform financial analysis, incorporating tools such as sensitivity and Monte Carlo analyses;
 - Prepare a business plan.
 - Establish valuation based on the above.

The Container Handling Company

Attendance

Maritime Transportation

As above

IBTCI

As above

The Container-Handling Co.

Mr. Izat Alkoudiy, Director of Research
Mr. Abass Abd El Gawad, Director of Operations

Points of Discussion

- This company is considered the cash cow of the Maritime Transportation Holding Company. The facilities are state-of-the-art in the industry. The company is considered well run, the cost structure is within the industry's norms, and the facilities at both the Alexandria Terminal and EL-Dekhrila Terminal are among the largest in the Mediterranean.
- The total surface area of both terminals is 543,000 square meters. The facilities are run very efficiently, handling 20 foot and 40 foot containers. According to management the rate of stacking 25 containers an hour compares favorably with world standards. The operation should be fully computerized within one month, and the manpower is well trained.
- The business is considered very capital-intensive.
- Overall efficiency is improving, with the introduction of in-house engineered software and other systems, for example, the EDI (Electronic Data Interchange). Also the company aims at improving efficiency by overcoming the barriers in customs procedures.
- The handling capacity is increasing at an annual rate of close to 10%. By end of 1999, number of containers handled will reach 540,000 T.E.U. This number is expected to reach close to 600,000 in the year 2000, and 650,000 by the year 2001.
- Free storage time is low compared to other major stations in the region, and it is 7 days for inbound, and 10 days for outbound. Transit is 30 days.
- The company was certified ISO 9002 two years ago.
- The company, according to management, took care of the environmental problem relating to sewage.
- On the question of privatization, the sale strategy would be to grant a concession to a pre-qualified strategic investor.
- As with regards to future outlook to developing the business, the company is contemplating increasing the storage capacity from 160,000 T.E.U. to 240,000 T.E.U. With a view to improved handling capacity it is also increasing the number of cranes and fork-lift trucks.

Workshop Conclusion

A final meeting was held with the Chairman, Mr. Marouni, during which he was briefed about the meetings with the affiliate companies. He indicated his interest in further aid in preparing Alexandria Shipyard for privatization. IBTCI noted that provision of in-depth and lengthy consultation would not be possible, however that we would discuss the request with the PEO which is in a position to solicit such aid in the HC's behalf.

Investment Banking Services for Egypt

Seventh Project Event

Issues and Analysis: Open Forum with Investment Promoters

January 17, 2000

Introduction:

The seventh project event took place at the Public Enterprise Office. The purpose of the meeting was to provide an open forum for discussing concerns of investment promoters regarding their role in the privatization of public enterprises. The IBTCI team prepared an agenda (attached, below).

Attendance

PEO:

Mr. Fouad Abdul Wahab, Director Head of the PEO
Ms. Rasha Omar, Valuation and Financial Analysis Unit

Ms. Rasha Omar, Valuation & Financial Analysis Unit
Investment Promoters

Mr. Hasan Hussein, CEO,
International Investment Advisors

Ms. Dhalia O. Khalifa, Managing Director
Global Capital Group

Mr. El-Sayed M. Moawad, Assistant General Manager
Banque Misr

Investment Promoters: Dr. Farouk Nasser, CEO
International Development Consultants

Mr. AbouBakr Zeitoun, Director Corporate Finance
Cairo Financial Investments

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan

Mr. Hasan Hussein, CEO,
International Investment Advisors

Ms. Dhalia O. Khalifa, Managing Director

Global Capital Group

Mr. El-Sayed M. Moawad, Assistant General Manager
Banque Misr

Dr. Farouk Nasser, CEO
International Development Consultants

Mr. AbouBakr Zeitoun, Director Corporate Finance
Cairo Financial Investments

IBTCI:

Mr. Charles Jelinek-Francis

Mr. Rajai Masri

Mr. Mohsen Hassan

SALIENT POINTS: Points of Discussion

- Only a as few as 6 to 10 investment promoters only, of the 41 investment promoters 'short- listed compiled by the PEO, have participated in the privatization of public enterprises - companies thus far. The PEO left to the holding companies (HCs) have the right to select the investment promoters they with whom they wish to deal with.
- The Commercial banks, especially the public sector National Bank, had have been awarded the lion's share of the a (disproportionately high?) number of mandates to represent sellers in privatization transactions. privatization deals. This is partially explained by various considerations, that paramount among them the fact that the public commercial banks tends to be are frequently the main chief lender to the an affiliate company in question, beside other considerations
- Mr. Abdul Wahab discussed a recent decree, # 4328, of the Prime Minister. This decree establishes an independent fund from the proceeds of the sale of privatized companies. The fund's assets shall be allocated to finance the debt settlements and labor restructuring of various companies. Accordingly, this would free the holding companies to select investment promoters on criteria other than creditor-debtor considerations.

Mr. AbdulWahhab was quick to point out that the recent decree, 4328, by the prime minister to establish an independent fund from the proceeds of the sale prices of privatized companies, so such a fund would dedicated to finance the debt settlements and labor restructurization of beleaguered companies. Accordingly, this would free the holding companies to hire investment promoters on criterion other than creditor-debtor considerations.

- There was a general consensus among the investment bankers present, that the HCS are not to disposed to contract for the services of investment banks. inclination of the holding companies not to contract the services of investment banking houses This stems from a misunderstanding of the role and scope of work that an investment promoter could perform. It is a problem of general misconception ;

~~that~~which left to circumstances would ~~take a very long time to change~~only slowly change.

- ~~Investment advisor was thought to be a more appropriate term to use instead of investment promoter. This is dictated by virtue of the added value the investment advisor would add to the process of privatizing a company. The investment advisor~~ plays a roll greater than that of a promoter and would should become involved early in the privatization process. It should play a role in valuation, due diligence and the production of an accurate and comprehensive information memorandum, ~~beside as well as~~ the actual promotion.
- The investment bankers present felt it was incumbent upon the PEO to take the initiative in selecting the investment promoter for the privatization transactions as they arise, rather than leaving it to the management of the holding companies. Mr. Abdul Wahab argued that such intervention would infringe on established rules and procedures.

~~The investment bankers present felt it was incumbent upon the PEO to take the initiative in selecting the investment promoter for the privatization transactions as they arise, rather than leaving it to the management of the holding companies. Mr. Abdulwahhab argued that would infringe on established rules and procedures.~~

- The ~~present~~ investment bankers complained that the great majority of the PEO pre-qualified ~~41~~ investment promoters are not timely informed ~~before hand~~ of the companies to be privatized, and thus ~~they are~~ effectively excluded ~~precluded~~ from ~~given a chance to participat~~one.
- ~~A suggestion was put by T~~ the investment bankers ~~present~~ suggested that the PEO ought to produce a list of companies to be privatized, and circulate ~~same it~~ to the ~~41~~ pre-qualified investment promoters. ~~so E~~ each investment promoter ~~then would~~ might then express interest in specific the companies, ~~that the said promoter wishes to be invited to bid for to promote. Then, T~~ the PEO ~~would~~ could then forward to the concerned ~~holding company~~ HCs the list of interested investment promoters ~~who expressed interest, so they can be invited~~ with the object of soliciting their bids when the target company is readied for privatization.
- Mr. Hussein and Mr. Zeitoun emphasized that the government ought to view the active participation of investment banks in privatization as a unique opportunity to develop a nascent investment banking industry in Egypt.
- There was a consensus among the present investment bankers that the PEO ought to issue guidelines to the holding companies describing the scope of work required to launch a successful privatization. The PEO should put into place a mechanism to ensure the adherence of the HCs to these guidelines.
- Mr. Hussein expressed frustration over the writing of guidelines and manuals, and he indicated that his experience over the three years convinced him of the non-utility of such documents to effect change in the HCs procedures. He advocates active direct intervention by the PEO in privatization matters.
- Mr. Zeitoun pointed out that circumstances have changed since the issue of the PEO list of pre-qualified investment promoters. He stated that the process of promoting the privatization of companies to be privatized is more difficult than previously. Accordingly, he suggests revisiting the investment promoters' list with the intention to

develop clear terms of reference and a scope of work that would serve as criteria for selection of investment advisors.

- It was suggested to create a committee of representatives of the HCs, which had already successfully completed privatization transactions in order that less-experienced HCs draw on their expertise.
- Mr. Hussein and Mr. Zeitoun emphasized that the government ought to view the active participation of investment banks in privatization as a unique opportunity to develop a nascent investment banking industry in Egypt.

~~Mr. Hussein and Mr. Zeitoun highlighted the fact that the government ought to view the active participation of the investment banks in the process of privatization as a unique~~

- There was a consensus among the present investment bankers that the PEO ought to issue guidelines to the holding companies of the scope of work required to launch a successful privatization process. The PEO should put in place the mechanism to ensure the adherence of the holding companies to these guidelines.

(3)

~~There was a consensus among the present investment bankers that the PEO ought to issue guidelines to the holding companies of the scope of work required to launch a successful privatization process, and that the PEO has to put in place the mechanism to ensure the adherence of the holding companies to these guidelines.~~

- Mr. Hussein expressed frustration over the writing of guidelines and manuals, and he indicated that his experience over the three years convinced him of the ~~inutility non-~~utility of such procedure such documents to effect change in the HCs procedures. He advocates short of active direct intervention by the PEO ~~on such in~~privatization matters.
- Mr. Zeitoun pointed out that circumstances have changed since the issue of the PEO list of pre-qualified investment promoters. ~~He stated and indicated~~ that the process of promoting the privatization of companies to be privatized is ~~much~~ more difficult than previously. Accordingly, he ~~seems to~~ suggests revisiting the investment promoters' list, and with the intention to the develop formulation of clear terms of reference and a scope of work that would ~~serve act~~ as ~~the criteria on~~ for qualifying selection of investment ~~promoters/~~advisors.
- ~~There were~~It was suggested ~~editions~~ to create a committee of representatives of the ~~successful~~ HCs, which had already successfully completed privatization transactions in order that less-experienced HCs draw on their expertise. ~~to the~~

Agenda: Open Forum Discussion

1. An Overview:
 - a) The types and nature of the remaining companies to be privatized.
 - b) Overviews of the current economic outlook, the stock market, liquidity and the business environment.
2. A diagnosis of the causes that precluded investment banks from playing a comprehensive and active role in privatization.
 - a) Lack of effective communication with the holding companies.
 - b) The investment promoter's view of the investment environment.
3. Requisite specialization, qualifications and capabilities required of an investment promoter.

Procedural disincentives to investment banker participation:

1. the holding companies misunderstanding of the role of the investment banker. I
 2. Absence of commensurate financial incentives: retainer and success fees.
 3. The dominant role of commercial banks in privatization, and institutionalization of under-bidding.
4. Recommendations:
 1. Educate the holding companies on the role and scope of work customarily undertaken by investment bankers.
 2. Initiatives by investment bankers for more creative approaches for financing. I
 3. The investment bankers' plan of action to strengthen their investors' network.
 4. Establish terms of reference and a scope of work of the proper investment banking process in privatization for use by the holding companies.

Investment Banking Services for Egypt

Eighth Project Event

Open Forum Discussion

PEO Procedure and Policy in Privatization

January 26, 2000

Introduction

The IBTCI team prepared a Proposed Review of Issues (attached below) as a working document for the meeting.

The meeting was held at the offices of the PEO, on January 26, 2000.

Attendance

PEO

Mr. Fouad Abdul Wahab, Director PEO
Mr. Mohamad Hassouna, Senior Executive PEO
Ms. Rasha Omar, Staff, PEO

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan

Points of Discussion

The object of the meeting was to discuss how best to facilitate privatization of Affiliate Companies (ACs). Based upon experience and observations during the course of the Investment Banking Services project the IBTCI team offered their comments.

- The Holding Companies do not fully appreciate the role that can be played by qualified investment banks to facilitate the sale and enhance the value of companies to privatized. The problem seems that of “education”. Given the challenge of privately placing an investment with a strategic investor the role of qualified investment bankers is crucial for the effective consummation of a transaction.

- (HCs) about investment banks as effective promoters of investment will likely require more time than the ambitious Without the active intervention of the PEO educating holding companies government privatization schedule allows.
- The PEO, therefore, should promulgate guidelines to the holding companies. These concise guidelines' should in detail the work of investment banking nature that the HCs during privatization will likely need to perform. Familiarity with the specialized nature of such work might encourage HCs to solicit the services of a qualified investment banker.
- The team suggested that monitoring of implementation of the guidelines should be undertaken by the PEO.
- Further, the team suggested that the PEO consider augmenting its staff by establishing an *Investment Banking Advisory Committee* comprised of executives of some of the HCs most successful in privatization.
- "Success" should *be* defined as the effective sale of significant number of affiliate companies within a holding company.
- Considering the wide disparity that exists in the level of knowledge, sophistication and effectiveness between the advanced holding companies and those lagging in privatization, shared experience of the successful holding companies could provide guidance for the less experienced to emulate.
- Additionally, the IBTCI team confirmed that they are currently drafting guidelines describing a Model Data Room.
- Finally, the IBTCI team discussed their visit to the Maritime Holding Company; findings and recommendations are attached below.

Proposed Review of Issues: Investment Banking and Privatization

Issues for consideration

Investment Promoters

In privatization, as a result of the changing business and economic environment in Egypt during the past three years, and given the nature of the remaining affiliate companies, direct investment by a strategic (anchor) investor appears to be the optimum choice.

As a number of the remaining companies to be privatized seem less attractive than those previously privatized the participation of a qualified investment intermediary is crucial to successfully attract investment. Here-to-fore full-service investment banking houses have not been significantly active in Egyptian privatization.

This is a result of the lack of sufficient appreciation by the HCs of the role and extent of the services a qualified investment bank may provide to facilitate privatization. Also, not all investment promoters seem equipped to deal with the changing realities the markets and economy.

Accordingly, a review of policy and a new approach by the PEO to engage investment banks and enhance their participation in privatization is a matter, which should be considered.

Proposed Procedure

Define and elaborate a Scope of Work and Terms of Reference

With regard to the role of an investment banker:

Restate the intermediary role to be played by the investment banker. This should be done in a manner reflecting the added value the investment bank is capable of bringing to a transaction. It is important to highlight consulting services, which an investment bank is able to perform:

Valuation, preparation of information memoranda, identification of prospective investors, facilitation of due diligence, tendering, financial engineering and creative financing approaches, contract preparation and negotiation.

Issue a separate decree by PEO to Holding Companies implementing the Scope of Work

The Scope of Work proposed above should be promulgated by the Minister of Public Enterprise among all the HCs.

Empower the PEO to monitor implementation of the decree.

To ensure that the instructions and guidelines promulgated by the MPE are observed and carried out in both spirit and letter by the HCs, a compliance mechanism empowering the PEO should be designed.

This task might call for the active participation of an independent consultant.

Create a Committee of privatization executives of successful HCs

Certain HCs are very advanced in implementing their privatization program. Immediately comes to mind companies such as Mining & Refractory, and Metallurgy. The executives in charge of privatization in such companies are very familiar with preparation of affiliate companies for effective privatization.

They have considerable knowledge and “hands-on” experience in this field a significant disparity exists in the level of sophistication and effectiveness between these advanced HCs and others that are lagging. Therefore, an Advisory Committee which “pools” the experiences of the successful HCs could provide guidance and an example for the lagging holding companies to emulate.

Creating a permanent committee, under the aegis of the PEO, comprised of a select group of privatization executives would significantly assist the lagging holding companies in expediting their privatization program. An independent legal advisor who is fully versed with the laws governing privatization should at all time be attached to such a committee.

The committee would hold periodically workshop meetings to address privatization issues, such as valuation, data room, contents of information memorandum, selecting and dealing with investment promoters, solicitation of bids, negotiations, etc. The committee should be accessible at all times to all HC executives.

The origination of such a committee, and its procedural organization might also require the specialized assistance of an independent consultant.

Create guidelines concerning standard documentation to be available in Data Rooms as well as the methodology for their operation

The IBTCI team could draft such guidelines. IBTCI consultants would coordinate with privatization executives of some of the leading holding companies to for review and comment of this document prior to its final publication.

RECOMMENDATIONS: MARITIME HOLDING COMPANY

Subsequent to IBTCI's visit to the Maritime Holding Company and its affiliates in Alexandria on December 7, 2000 (See: Sixth Project Event, Workshop for Maritime HC) the management of the Maritime Holding Company requested recommendations for the privatization of its affiliate company, Alexandria Shipyard. As such an endeavor lies beyond the scope of work and mandate of IBTCI, it was decided to put the matter before the PEO as an extension of the more general policy issues raised above.

Background

The management of the Alexandria Shipyard now contemplates new corporate and business strategies for the future. The new corporate strategy calls for abandoning shipbuilding due to the lack of competitiveness. Instead, the management identified three new areas of specialization, in a growing market. The three activities are:

- Ship repair and maintenance
- Ship breaking
- Engineering and construction in steel

The management is convinced that with the current company its trained labor proven engineering capabilities, strategic location and extensive real estate that the company would be in a good competitive position.

An in-depth study should to be undertaken to examine the validity of the assumptions by the management. This would seem a necessary prelude to any talk of privatization and establishing a realistic price.

Proposed Study Outline:

The approach to follow in this regard should be to:

- Conduct in-depth technical audit/due diligence to examine and establish the true capabilities of the company.
- Conduct a market study in view of the perceived strategies outlined above.
- Combine the general strategies with the findings of the market study to develop a marketing strategy.
- Develop various scenarios for a marketing strategy.
- **Assess the capital investment requirements, training and technical requirements to carry the various marketing strategies.**

- Perform financial analysis, incorporating tools such as sensitivity and Monte Carlo analyses.
- Prepare a business plan.
- Establish valuation based on the foregoing.

Investment Banking Services for Egypt

Ninth Project Event

How to Prepare a Data Room for Due Diligence

February 2, 2000

Introduction

The ninth event was held at the offices of the PEO on Wednesday, February 2nd, 2000. It was targeted at the Holding Companies (“HC”). The objective of the roundtable was to introduce and discuss the guidelines in preparation by IBTCI for the *Establishment of a Model Data Room*.

Attendance

PEO

Mr. Fouad Abdul Wahab, Director of the PEO
Mr. Mohamad Hassouna, Restructuring Specialist

MPE

Dr. Abdul Aziz Hijazi, Advisor to the Minister
Dr. Mohamad Reda AlAdl, Advisor to the Minister

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan

Holding Companies

Mr. Wadie Mishreki	Metallurgical Holding Company
Ms. Mona Tosson Labib	Engineering Holding Company
Mr. Ahmad Farid	Engineering Holding Company
Mr. Zaki AlSayed Zakaria	Maritime Holding Company
Mr. Nabil Duwaidar	Maritime Holding Company
Mr. Osama Abdul Minim	Cotton and Intern'l. Trade Holding Company
Mr Hasib M. Abdul Rahman	Transportation Holding Company
Mr. Kamel M. Kamel	Transportation Holding Company

Material distributed

A first draft of a proposed guidelines “*Establishing A Model Data Room,*” was distributed to all attendants. After discussion and review Mr. Fouad Abdul Wahab judged it necessary to schedule additional discussion of this topic.

The completion of the draft is dependent upon comment and observations from the HC personnel. This commentary shall be considered prior to composition of the guidelines in their final form.

Points of Discussion

Mr. Fouad Abdul Wahab chaired the meeting. CJF briefly introduced the topic, explaining the objective and purpose of the event. RM continued the presentation. The following points were discussed:

- RM described the commercial necessity of establishing Data Room. He emphasized its importance within the wider context of privatizing a company.
- It was emphasized that changed conditions hinder the privatization of some of the remaining affiliate companies. A slower economy, a liquidity crunch and negative tenor of the stock market and the fact that many of the remaining companies are less attractive than those previously privatized complicates their successful privatization.
- An *Anchor/Strategic* investor seems the logical target. This fact necessitates a more active approach engagement by the HCs in the preparation for sale and promotion of their Affiliate Companies (“ACs”). On the promotional side, a better appreciation must be had by the HCs of the “value added”, role and scope of work required of an investment promoter/banker in the realization of a successful sale.
- Restructuring or efforts to “turn around may be required prior to advertising the sale of an AC. Circumstances will vary from one company to another. The general policy]is to limit restructuring to what he terms: “soft restructuring.” This requires less time and commitment of resources. Examples of “soft restructuring” are: debt settlements/restructuring, labor restructuring and introduction of managerial systems for increasing efficiency.
- Establishing a data room facilitates the process of sale of an AC in privatization. A well-organized data room expedites the process of Due Diligence by prospective investors. Beside easing the process of Due Diligence, comprehensive presentation of information in the context of a properly organized data room may ameliorate the necessity for escrow or retention accounts to the detriment of the seller’s interests, and substantially lessens the risk of future claims of fraudulent misrepresentations.

Investment Banking Services for Egypt

Tenth Project Event

Presentation of a Model for Establishing a Data Room

February 9, 2000

Introduction

The ninth event, a “round-table” was a continuation of discussions of the topic “**How to Prepare a Data Room for Due Diligence**,” introduced in the 8th project event. The event was held in the offices of the PEO, on Wednesday February 9th, 2000.

Attendance

PEO

H.E. Mr. Fouad Abdul Wahab, Director, PEO
Dr. Ali Dirgham, Advisor to H.E. the Minister of MPE
Mr. Mohammad Hassounah, Senior Executive at the PEO
Mr. Mazen M. Fayyad, Manager M.I.S. at PEO
Ms. Marwa M. Al- Maslamani, Restructuring Department at the PEO
Ms. Dalia Sananah, Economic Researcher, PEO
Ms. Maggi R. Sa'd, Research Assistant, PEO
Mr. Tarek El-Sharnoubi , Research Assistant

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan

Holding Companies

Ms. Leila M. Naser	Spinning, Weaving & Textiles
Mr. Saber M. Saber	Construction & Building
Mr. Farouk H. Abdul Ghani	Cotton and International Trade
Mr. Osamah Abdel Monaim	Cotton and International Trade
Mr. Fawaz M.A. Odeh	Cotton and International Trade
Mr. Wadie Mishreki	Metallurgical Industries

Mr. Zaki El-Sayed Zakaria	Maritime Holding Company
Mr. Nabil M. Douwaidar	Maritime Holding Company
Mr. Mohamad Ahmad Sarhan	Engineering Industries
Mr. Ahmad M. Farid	Engineering Industries
Mr. Kamel Mustafa	Transportation
Mr. Haseeb M. Abdul Rahman	Transportation
Mr. Safwat M. Hasan	Food Industries
Mr. M. Sharif El-Fakher	Construction & Building

Organization

The event was devoted to further discussions concerning establishment of a Model Data Room. A presentation on Information Technology was made during for the final half-an-hour of the two-and-a-half hour session Mr. Fouad Abdul Wahab chaired the meeting. Mr. Mohsen Hassan moderated.

Mr. Mohsen Hasaan opened the discussion by answering questions regarding the establishment of a data room, which had been raised by Mr. El-Fakher during the previous event.

Those questions were:

1. What is the objective of introducing this new concept of a Data Room? What could be the legal ramifications if any?
2. Where has such a concept had been applied before, and in what manner was it was carried out?
3. How were things done before the introduction of the Data Room concept?
4. **Whom does the Data Room concept target as an audience? Is it applicable in all situations of sale of public enterprises?**
5. With regards to deposition of originals company documents in the data room: How does the company operate without such documents in its possession in the interim period prior to closing the sale?
6. What would be the repercussions for the company's continuing business interests of allowing the access to company secrets?
7. **Who is the party authorized to verify the accuracy of information and data of the documents in the data room? What is the permissible and usual extent of such verification? What action would be taken in case the results of such verification differs with those of the Central Auditing Authority ("CAA")?**
8. Under what conditions is a prospective investor allowed access to the data room?
9. What would be the responsibilities of management of the HC as the seller, and the Government of Egypt as the ultimate owner?

Mr. Mohsen Hassan answered the above questions as follows:

- The purpose of creating a stand-alone Data Room is to make available data and information pertaining to the company subject of sale, in an organized manner that meets international standards. This is to allow prospective investors the opportunity to make informed decisions, under conditions of full disclosure and transparency. The objective is to afford prospective investors the chance to appraise the company and to determine a fair market price.
- Full disclosure and complete transparency mitigate the potential for subsequent legal and financial liabilities on the seller after conclusion of the sale.
- Cases have occurred in which sale of an Affiliate Company (“AC”) totally failed due to the inaccuracy and insufficiency of the data and information relating to it. The creation of a data room, with stipulated documents under supervision of specified company staff would mitigate such eventualities.
- Mr. Hassan added that the data room concept is not a novelty, and is a method pursued by HCs in the privatization of their ACs. Examples given of HCs establishing Data Rooms to facilitate the sale of ACs are:
 - Assuit Cement
 - Beni Sweif Cement
 - Alexandria Cement
 - Electric and Plastic Industries
 - National Paper
 - Metalco Co.
 - Qarna Co.
 - Stelco Co.
 - Bricks Co.
 - St. Stephano Hotel
 - Abu Za’bal Fertilizers
 - Telephones Co.
 - Nasr for Steel Pipes.

Mr. Wadie Mishreki of Metallurgical Industries added that:

- The main concern of a prospective strategic investor is to establish the real ownership of a company of its assets, mainly the fixed assets.
- Many Public Sector companies face a problem of the non-existence in some situations of the original deeds of ownership.
- Mr. Mishreki pointed out that the process of due diligence by the prospective strategic investor and his/her representatives and professional advisors proceeds through two distinct phases:

Phase I: During which all deeds of ownership are examined. This starting with the deeds of land ownership, followed by examination of all the original documents, proofs of ownership of all the other fixed assets: buildings, equipment and machinery.

Phase II: During this phase the professional advisors of the prospective strategic investor re-arrange the audited financial and business information and data relating to the AC into formats conforming to International Accounting Standards. A format, such as GAAP is used to suit the requirements of the prospective investor. During this phase, the investors' professional advisors request and demand access to greater details relating to the company's operations.

The interest in acquiring the AC is prospective. The investor wants to be satisfied with potential for developing the company's resources; determine required improvements and additional investments, and prospects for increasing its market share.

During this phase, the prospective investor's advisors must ascertain the real strengths and weaknesses of the AC to be acquired.

The price that the prospective investor will offer is dependent upon the results of thorough analysis. It is usually based on the company's potential as is reflected by the business strategy, which the buyer intends to adopt after acquisition.

- Mr. Mishreki explained that the preferred prospective investor should be afforded complete access to all the information and data relating to the AC's operations. He was keen to point out that it is not unusual to find that a prospective investor possesses more information about the AC, beforehand, than the AC itself has collected and at its disposal.
- Mr. Mishreki, on the basis of his experience, was emphatic about granting full access to information to the preferred prospective investor. Incomplete information could result in a demand by the prospective investor that the HC issues letters of guarantee to safeguard the investors with regard to points remaining unclear or ambiguous.
- Mr. Mishreki emphasized that the Data Room should be situated in the AC even though it is supervised by the Privatization Executive in the HC. This is necessitated by two considerations:
 - a) Easier access of the AC to information relating to its ongoing operations during the tendering period.
 - b) Protection of the documents from potential misplacement, loss or damage as a result of moving them to a different locality.
 - c) The housing of the Data Room within the premises of the AC affords the prospective investor access to the management and staff of the AC who are conversant with all the details relating to its operations.
- Mr. Mishreki emphasized that the process of Due Diligence is continuous until the closing of the deal as evidenced by the signing of the parties of the final contract.

Following discussion of the Data Room, the topic became: "Developing an Information Center and "Information Technology." Very few of the ACs operate with modern information technology. Mr. Mishreki's Metallurgical Industries Holding Company, is among the very few which with assistance of the PEO have initiated use of Management Information Systems (MIS) in the ACs being prepared for privatization.

This session on M.I.S. was meant to be an introduction to be followed by a roundtable solely dedicated to M.I.S.

Mr. Mazen Fayyad of M.I.S. at PEO gave the following brief presentation:

- He explained the general framework of data-bases relating to the situations of the HCs and ACs. He indicated the need to establish five distinct types. They are:
 1. A data-base about the prospective investors. Beside the raw data, a system, “neutral assessment”, must be applied to classify and filter the information.
 2. A data-base about the company employees.
 3. A data-base for follow up, and the archives.
 - 4. A data-base of the company’s assets, including details of each asset or asset category.**
 5. A data-base relating to production and sales, including full details of product-lines.

Investment Banking Services for Egypt

Eleventh Project Event

Applying Information Technology

February 21, 2000

Introduction

The eleventh project event was held on Monday February 21, 2000, at the Public Enterprise Office ("PEO"). The topic of discussion was: Information Technology. The meeting was moderated by, Mr. Mazen Fayyad, the M.I.S. executive at PEO. The presentation was an augmentation of the previous two events dedicated to discussion of a model Data Room.

Attendance

PEO

Mr. Fouad Abdel Wahab, Director of the PEO
 Mr. Mazen M. Fayyad, M.I.S. Executive
 Mr. Essam Abdel Fattah Mohammed, Assistant Manager, Privatization
 Mr. Ahmad Tharwat Khalil, Assistant Manager, Privatization
 Ms. Maddi R. Sa'd, Assistant Researcher

IBTCI

Mr. Charles Jelinek-Francis
 Mr. Rajai R. Masri

Holding Companies

Mr. Fuad M. Oudeh	Cotton & International Trade
Mr. Osamah Abdel Mon'aim	Cotton & International Trade
Mr. Tarek Hasan Abdel Ghani	Cotton & International Trade
Ms. Leila Mahfouz Naseer	Spinning, Weaving and Textile
Mr. Ibrahim Sayed Fawzi	National Construction and Building
Mr. Saber Mahmoud Saber	National Construction and Building
Mr. Ahmed Mohammed Farid	Engineering Industries
Mr. Nabil M. Duwaidar	Maritime
Mr. Ahmad Mohammed	Textile
Mr. Tarek Abu Zaid	Textile

Mr. Adel Baz	Pharmaceuticals
Mr. Abdel Baki M. Abdel Baki	Pharmaceuticals
Ms. Salwa Abdel Fattah	Mining and Refractory

Points of Discussion

Mr. Fayyad began the presentation by describing the benefits of automation of the data room, which would result in a more effective retrieval of information and management of documents.

He continued by reviewing the following facts about Information Technology:

- Mr. Fayyad utilized diagrams of the three legs of an information technology structure which he summarized as follows:
 - Human resources
 - Hardware
 - Software
- Mr. Fayyad indicated that the Egyptian government reached an agreement with Microsoft, according to which, Microsoft provides its software programs and systems to the use of state enterprises and educational institutions at a very reduced competitive rates. A round figure of EL 1,000 was quoted for a complete Micro soft system. This according to Mr. Fayyad substantial discount from the going rates of EL 5,000 or more. The quoted figure includes a 15% reserve for training manpower.
 - The complete Microsoft software system would customarily include:
 - Operating system
 - Microsoft office
 - Client back-office
- Mr. Fayyad indicated that very few operating companies operate in *Information Technology* enabling environment. He was quick to highlight the fact that creating such an environment with trained manpower could result in enhancing the value and the price of the affiliate company subject of sale by no less than 20 – 30%.
- Mr. Fayyad had the opportunity, by virtue of his position at the PEO, to be exposed to a number of affiliate companies. His findings are that a substantial percentage of their current hardware is capable of using the latest Microsoft systems, such as Windows 98 and 2000. In his view, any hardware operating on *Pentium* is capable of handling the latest Microsoft systems. The governing theme here, with reference to marrying software with available hardware is the concept of: “Best Utilization.”
- He discussed an offer by Microsoft to supply software to the Acs as in a “package deal” and its versus individual procurement of such systems by the ACs. He believes the offer to be advantageous and solicited AC participation.
- Mr. Fayyad discussed and urged the gradual introduction of M.I.S. at the ACs. He thought it best to start in computerizing and applying M.I.S. in the following gradual sequence:

- Company's Assets: creating an itemized inventory of a company's assets, and recording such information for each asset such as value, accumulated depreciation, the added assets, etc.
- Entry of general data and information pertaining to the previous periods, starting with the most recent past period. This in parallel with the daily recording and entry of data and information pertaining to new transactions.
- Financial System.
- Mr. Fayyad recommended that training manpower on M.I.S. and on application of new systems would be at least 50% cheaper to do it in-house rather than doing it outside with external companies.

Following the presentation, Mr. Fayyad discussed another aspect of automation: Connecting to, and benefiting from the Internet.

He emphasized the following points:

- That creating a web-page pertaining to the company is the least expensive and most effective method to advertise the company, its products and services. It is a medium offering potential visibility 24 hours a day, 365 days a year at a minimum cost. This compares extremely favorably with other media.
- Mr. Fayyad discussed gradual steps to introducing and fully utilizing the Internet in a business setting He categorized the process into two major stages: The static, and the dynamic.
- The static stage entails the potential for creating value for the company. This stage provides two benefits: Presence, and potential added realized revenues.
- Presence entails displaying relevant business and commercial information about the company, such as the company's name, its products, the locations of its distribution outlets, etc.
- Potential added realized revenues emanate from generating interest and inquiries by prospective customers. Mr. Fayyad indicated that some ACs are not aware of the availability of some products and services at other affiliate companies when they issue RFPs.
- The dynamic stage is a next stage, with a virtual media commercial *presence*; a web site that would engage the company in actual buying and selling through the Internet web, in what is termed "E-commerce".
- Sales should increase substantially using the Internet, and cost of transactions is substantially reduced when concluding sales through this medium.
- Mr. Fayyad concluded by impressing on the HCs that they should take the lead to publicize and explain the benefits of the Microsoft agreement among their affiliate companies, and assist them to implement M.I.S.

- Discussion followed among the holding companies' representatives, regarding the limitations the law imposes on the HCs and their affiliate companies, given their transient status, to investing assets, including M.I.S. related investments.

Investment Banking Services for Egypt

Twelfth Project Event

Contract Issues and Suggestions for Negotiation, A Legal Perspective

February 29, 2000

Introduction

The twelfth project event was held on Tuesday, February 29, 2000, at the offices of the PEO. The topic of discussion was a continuation of two previous round-tables on the legal framework and related negotiating strategies in privatization sales of public sector enterprises. The speaker again was counselor Ahmad Hassan.

The discussions, were animated; participants again raised issues concerning Data Rooms and Due Diligence. The interest in this topic reflected a deepening awareness of technical issues central to facilitating the successful sale of Affiliate Companies ("ACs").

Attendance

Speaker

Mr. Ahmad Hassan, Counselor

PEO

Mr. Fouad Abdul Wahab, Director, PEO
Ms. Maggi Raouf Sa'd, Research Assistant
Mr. Mohammed Salem Salem, Researcher

IBTCI

Mr. Charles Jelinek-Francis
Mr. Rajai Masri
Mr. Mohsen Hassan
Mr. Reda Afifi

Holding Companies (“HCs”)

Mr. Ibrahim Sayed Fawzi	National Construction and Building
Mr. Mohammed Sharif Nazer	National Construction & Building
Mr. Tarek M. Abu Zaid	Textile & Trade
Mr. Mohammed Ahmad	Textile & Trade
Mr. Nabil Duwaidar	Maritime
Mr. Zaki El-Sayed Zakaria	Maritime
Mr. Nasr Ahmad Salem	Transportation
Ms. Leila Mahfouz Nsair	Spinning, Weaving & Textile
Mr. Mustafa Abdulah	Engineering Industries
Mr. Tarek Hasan Abdel Ghani	Cotton & International Trade
Mr. Fuad M. Ahmad Oudeh	Cotton & International Trade
Ms. Fatimah Ahmad Jaber	Cotton & International Trade
Ms. Nabihah Mahmoud Fahmi	Cotton & International Trade

Points of Discussion

Mr. Ahmad Hassan began by summarizing issues discussed in two previous round-tables devoted to the legal framework of privatization. The session was animated, and a high degree of interaction occurred between the speaker, and the audience. Following are highlights of the issues discussed:

- Mr Hassan briefly referred to the various laws that were enacted to prepare for the sale of public sector companies, and to effect their transformation into joint-stock companies eligible to be listed on Egyptian stock exchanges. He made reference to Privatization Law 203, Joint-Stock Companies Law 159, and the Capital Market Law 95.
- All the above laws, were enacted to allow for the sale of the public sector companies, to supersede Law 97 which forbade the sale of public sector assets.
- Mr. Ahmad Hassan then reviewed what he referred to as “Primary Steps” in the privatization of Affiliate Companies (“ACs”). He emphasized the need that the HC should put in good order all the relevant documents relating to the company. He again stressed the necessity to facilitate the of Due Diligence by the prospective strategic investor. Mr. Hassan revisited the list of “Headings” one by one, giving in the process case-study examples for each heading. He emphasized the effect on price, and the withholding or “freezing” of payments which might result if the supporting documentation of the company were not presented to the satisfaction of the buyer.
- In the matter of “confidentiality” and the extent of the information to be divulged to buyer’s representatives, a recurring issue in round-table discussions, Mr. Hassan attempted to finally dispel lingering hesitancy and confusion. He spoke of:

The right of buyer-accessibility to a company’s information and data. The process of due diligence should consist of two Phases.

1. *Phase One* comprises the early stage of bidding. Most of the information about the company is contained in the “Information Memorandum”, one of the essential tender documents issued for the benefit of all the bidders.

2. *Phase Two* involves permitting the winning (chosen) bidder, his representatives and professional advisors broad access to company information and documentation pertinent to the sale and valuation.

3. The right of the prospective buyer to full disclosure of company's rests upon the convention that "*the seller guarantees the subject/product/item to be sold.*" The seller, again by virtue of a well established general convention, is obligated to "deliver" the subject of sale, and assure it is not in "*contradiction,*" is not in conflict to "*what it is represented to be.*"

4. Mr. Hassan emphasized that this convention is the "essence" of privatization, and governs accessibility to otherwise confidential information. He added that a prospective investor seeks to acquire the *actual value* of an asset, as well as the *potential value* of that asset. In both cases, the buyer is entitled to full and transparent disclosure of all the facts pertaining to the asset to be acquired.

5. Determining the confidential nature of certain types of information is better left to each HC, on a case by case basis. The Board of Directors of each HC should review the matter on a case by case basis as needed.

- Mr. Hassan discussed the practicalities, and virtues of the Central Depository and electronic share registration. He gave vivid examples of the task of transferring ownership of a company's physical stock certificates. A task which requires the creation of single shares, in numbers that physically correspond to the number of issued shares. He described all the attendant details of issuing each share, and providing for their registration in the issuing company's central registry.
- He then compared the mechanism of electronic registration, which arose from promulgation of a new law establishing a central depository system. He indicated that a statement issued by the Central Depository electronic registry suffices for validity and proof of ownership, and is legally binding.
- Another subject of continued contention is *valuation*. After explaining the inhibiting concerns that prompt management of holding companies to adhere to certain levels of unrealistic valuation of the company's assets (paramount among them fear of accountability, and the hesitancy to show loss, especially with regards to *doubtful accounts receivable, and the state and prevailing market prices of inventory*)
- Mr Hassan indicated that an addendum to ruling 26 of the Executive Regulations of Law 203, has greatly alleviated this problem. Now, the final decision on appropriate value rests with the general assembly of the HC; the burden and responsibility of management have been mitigated.
- In response to a question about the management of the HC providing, with regard to any specific asset sold, and especially accounts receivable, financial guarantees to the buyer, Mr. Hassan mentioned that it is not usual to provide them, except in regard to title to real estate. He further indicated that Law 203 has rescinded the right of HCs to issue guarantees.
- Mr. Hassan gave detailed and particular explanation and answers to queries on the methodology of procuring a new or replacement deed for real estate of which the title may not be clear., He described methods for establishing proof of ownership and registration in the general real estate registry ("AlShahr Al-Aqari").

Investment Banking Services for Egypt

GUIDELINES

BEST PRACTICES

OF

DEALING WITH INVESTMENT PROMOTERS

WITHIN THE FRAMEWORK OF PRIVATIZATION

Prepared By: IBTCI

Cairo March 12, 2000

Investment Banking Services for Egypt

Dealing with Investment Promoters within the Framework of Privatization

Why An Investment Promoter?

Hiring the services of a qualified investment advisor/promoter should result in successfully consummating the sale of an affiliate company, and the maximization of the realizable value/price of the sale of the affiliate company.

How To Maximize Realizable Value/Price?

The investment promoter adds value and maximizes the potential price of a transaction through the rendering of specialized investment banking services. The investment promoter/advisor adds value through the effective deployment of its specialized resources. Among these resources that the Holding Company needs to investigate and be satisfied with are the following:

1. The investment promoter/advisor's technical, organizational, managerial and management systems capabilities.
2. The investment promoter/advisor's work plan, strategy and method of work.
3. The investment promoter/advisor's familiarity with the industry and business activities of the company subject of sale. This involves knowledge of the various financial, technical, managerial, marketing and competitive aspects of the company's operations. This is form both frameworks: *actual* and *potential*.
4. The investment promoter/advisor's full understanding of the market forces influencing the operation and value of the company, backed by market research and analysis.
5. The investment promoter/advisor's knowledge of the potential industrial investment players in the market, who could qualify as prospective strategic investors for the company subject of sale.
6. The ability of the investment promoter/advisor - as judged by the record and performance in similar past transactions – to highlight the attractive sides of the deal, and the competitive advantages that the affiliate company subject for sale possesses.
7. The ability of the investment promoter/advisor to assist in formulating competitive strategies to enhance the affiliate company's value and prospects for sale. This could be reflected in a business plan that the investment promoter/advisor would help prepare, and that would be based on convincing credible assumptions and logical projections.
8. The investment promoter/advisor must possess an extended web of business relations and contacts, and an extended worldwide reach that would improve the chances to identify and attract desirable candidate prospective investors to the sale transaction.

9. Excellent knowledge of the working of the capital markets, and abilities of the investment promoter/advisor for creative thinking and conceptualization of the optimal financing structure for the deal, and potential sources of available funds for early consummation of the sale of the company.

The Role Of The Investment Promoter/Advisor

It is advisable that the minute a decision to privatize the affiliate company, and preparing the company for sale is taken, that the Holding Company should engage the services of a qualified investment promoter/advisor. The investment promoter/advisor would be expected to actively participate in preparing the affiliate company for sale by providing the following consulting, investment banking and promotional specialized services:

Participate And Assist In The Valuation Of The Company On A Realizable Market Value/Price Basis.

This would be based on the investment promoter/advisor conducting certain degree of due diligence to satisfy itself with the completeness of the documents upon which valuation would be based, along with the accuracy of the data and information pertaining to the affiliate company's activities, and the validity of the assumption upon which future projections are made ("*Diagnostic Analysis*").

The investment promoter/advisor should assist in the performance of financial analysis, based on audited financial and operational data and information.

The investment promoter/advisor should satisfy itself with the completeness and accuracy of all the documents that a prospective preferred investor would need to examine for the early consummation of the sale of the affiliate company.

Participate And Assist In The Preparation Of A Business Plan For The Purpose Of Concluding The Sale Transaction.

The investment promoter should assist in the formatting and preparation of a detailed business plan for the company, to acceptable international standards. The plan should reflect the potential of the company. The objective is to attract prospective investors by showing that the company subject of sale is viable once right actions are taken.

Accompanying notes should sufficiently explain the logic and basis of assumptions and projections, that on the basis of which the economic viability of the company is demonstrated.

Draw A Work Plan (Strategy) For The Sale Of The Company

The investment promoter/advisor should assist the Holding Company to draw a working plan for sale of the affiliate company, with the object of achieving the highest realizable fair price given market conditions and the company's highlighted desirable attributes. This is in conjunction with a timeframe to concluding the sale.

Participate In the Preparation Of An “Information Memorandum.”

The investment promoter/advisor should determine the design, content and formatting, and assist the Holding Company in producing an “Information Memorandum” that meets good international standards of transparency and full disclosure. The “Information Memorandum” is a selling memorandum that must contain complete and accurate data and information relating to the company’s operations and financial performance.

Assist In Soft Restructuring Deemed Necessary For Early Privatization

The investment promoter/advisor should assist in reviewing the financial structure of the affiliate company, and make recommendations for some remedial actions to possibly effect certain soft restructuring that could significantly improve the attractiveness of the company and enhance its potential value and perceived market price.

Assist In The Preparation Of the Tender Documents, And The Invitation to Tender

The investment promoter/advisor should assist in the preparation of the other Tender Documents, beside the Information Memorandum. The Other Tender Documents would include:

1. Terms and Conditions
2. A Contract Sample

The investment promoter/banker ought to assist in the design of the advertisement of the Invitation to Tender, and the guidelines of procedures to follow.

Promotion Of The Sale

The investment promoter/advisor should conduct an in-depth, comprehensive study on prospective investors, drawing on the widest database possible. The investment promoter/advisor should prepare a report, for the review and approval of the Holding Company, containing the profiles of prospective investors and the prospects for sale. The investment promoter/advisor should mobilize its networks of relations, allies and associates in the financial and business communities, for the purpose of identifying prospective investors. The investment promoter/advisor would disseminate information on the company subject of sale.

VIII. Assist In Setting Guidelines, And Participate In The Evaluation Of Tenders

The investment promoter/advisor should assist in designing detailed guidelines for Procedures to Evaluating Tenders, including organizational and functional matters relating to the process of evaluation.

The investment promoter/advisor ought to assist in the Evaluation of Tenders, in a manner that would guarantee full transparency.

IX. Assist In Consummating The Sale**In this regard, the investment promoter/advisor can perform the following functions:**

1. Assist in formulating and composing the letter to the winning bidder.
2. Assist in the planning of negotiating strategies.
3. Assist in the design and preparation of the requisite legal documents.
4. Assist in all the procedures to bringing the sale to a final fruition.
5. Assist and the registration and the listing in the stock exchange of the company after sale.

Selecting the Investment Promoters

The Public Enterprise Office (“PEO”) short-listed the qualified investment promoters/advisors that the Holding Companies can draw from for the purpose of assisting in selling the affiliate companies.

The Holding Company will need to review the short-list, and subsequent to a tendering process – that ensures that all bidders are fairly treated in an open and “transparent” fashion – select the investment promoter/advisor with the requisite qualifications, capabilities and relevant experience that can effectively assist in the early consummation of the sale.**The Tender Documents for selecting an investment promoter/advisor would include the following documents:**

1. Terms and Conditions.
2. Terms of Reference.
3. Structure and Content of the Technical Proposal.
4. Guidelines for the structure of the fees and the Financial Proposal.
5. Description of the affiliate company subject of sale.
6. Timeframe of the complete tendering process.

Terms And Conditions

They contain the rules that govern the tendering process.
They contain instructions to the bidders with regards to matters relating to:

- The days the validity of the bid should remain in force.
- The period during which the bid must be submitted.
- The language in which the bid must be submitted.
- Number of copies of the bid must be submitted.
- The requirements for the structure and content of the submitted proposals (Technical and Financial).
- The date the winning bidder would need to fully mobilize for the assignment.
- Information on the methodology and manner by which evaluation of the bids would be carried out by the Holding Company in a manner that ensures transparency during all the stages of the tendering process.
- A sample of a standard contract is supposed to be included as part of the “Terms and Conditions.”

Terms Of Reference

Gives a detailed description of the scope of work and tasks and services required to be performed by the successful investment promoter/advisor bidder.

The document of the Terms of Reference customarily contains the following:

- Background that highlights the context within which the request for tender is initiated.
- Definition of the proposed assignment and scope of work: *The services to be provided by the investment promoter/advisor.*

The Content of The Technical Proposal

This document specifies the format and style of the technical proposal. It gives instructions regarding the structure and content of the “Technical Proposal.” The objective is to standardize all proposals with the purpose to create a fair basis for comparison.

Some of the requirements could be that the submitted Technical Proposal should include:

- An “Executive Summary,” that provides an overview of the main points.
- Contained in the Technical Proposal.
- Detailed analysis of the method and plan of work.
- Detailed schedule for achieving each element/component/task, along with the investment promoter/advisor’s plan to creating a short-list of prospective strategic investors.
- Description of the suggested working team for the project, along with diagrams and charts describing the organization of the work team, and clear definitions of responsibilities and authorities of each team member. etc.
- Profiles, or resumes (“CVs”) of the members of the proposed work team.

- List the relevant experiences and relevant strengths of the bidding investment promoter/advisor.

Structure Of The Financial Proposal

It defines a structure for proposing a fee. This, as in the case of the Technical Proposal, tends to put all bids on equal footing for the purpose of easier comparison, and serves the objective for transparency.

The fees are to be stated according to a remuneration structure based on two parts:

A Fixed Retainer Fee; and

A Success Fee.

No allowance is made for payment of any reimbursable expenses.

Timeframe For The Selection Of The Investment Promoter/Advisor

Shows the different steps of the Tendering process. It allows all bidders to know when to expect results. The Timeframe appears in the form of a Timetable. The Timetable divides the tendering process into itemized events, with a date assigned for each event. Example could involve the following events:

- Request for tender.
- Period for submitting questions.
- Responses to questions.
- First date for submitting bids.
- Last date for submitting bids.
- Evaluation of bids.
- Selection of Winning bidder.
- Negotiation with winning bidder.
- Signing of final contract.

APPENDIX I**A Suggested Set of Questions To Forward To
Investment Promoters/Advisors**

- I. The Range Of Specialized Financial Services the Investment Promoter/Advisor Provides.
- II. Lists of the names, positions, academic qualifications, accreditations & professional designations, as well as listing of work experiences, and training workshops of the following persons, arranged chronologically:
1. The Founders & Partners.
 2. The Senior Managers.
 3. The Skilled Financial/Investment Professionals.
 4. The Number of the total manpower of the firm.

III. Major offices and branches that are totally or majority owned by the firm. The Investment Promoter/Advisor ought to highlight the following:

1. The name and address of the office/branch.
 2. The number of total employees.
 3. The specializations and activities carried out by the office/branch.
- IV. Foreign Associates & strategic cooperation agreements. This ought to highlight the following:
1. The name and the main office address of the foreign associate.
 2. Fields of cooperation with the foreign associate.
 3. Estimated annual volume of transactions, with the foreign associate, in Egyptian pounds.
 4. In case of partnership, the percentage ownership of the foreign partner/associate in the firm.
 5. The nature of the technical and management agreements with the foreign associate/partner.
 6. The validity period of the above mentioned technical and management agreements.
 7. The validity period of the partnership agreements.
- V. A list of the transactions undertaken/performed over the past three years. Under this item, the investment promoter/advisor ought to specify the following:
1. The name of the transaction.
 2. The name of the client/seller.
 3. The name of acquirer/purchaser.
 4. The size of the concluded transaction in Egyptian pounds.
 5. The services performed by the firm in this transaction:
 - Valuation of the assets and the company subject of sale.
 - Restructuring.
 - Assisting in the preparation of the tender documents.
 - Promotion/underwriting.

- Participation in the negotiations.
 - Assisting in the preparation of the legal documents.
 - Assisting in the issuing and in the registration of shares.
6. The names and roles of co-managers and other participating underwriters.
7. The period it took to consummate the transaction successfully.
- VI. A list of the transactions in the area of privatization that were performed by the firm over the past three years. The information required follows an exact similar pattern as in (V) above.
- VII. The firm's activities in the area of securities underwriting and financings. Under this heading the firm ought to provide information on the following:
- The name of the transaction.
 - The name of the client.
 - The size of the deal/transaction in Egyptian pounds.
 - The role performed by the firm in this transaction.
 - Listing of the participating financial institutions in the transaction, and their roles.
 - The managing institution/bank of the transaction.
 - The source of funding/financing.
 - The plan of work/strategy to promote the deal towards a successful conclusion.
- VIII. The capabilities of the firm in attracting strategic/anchor investors. Under this rubric the following information ought to be obtained:
- The name of the privatization transaction.
 - The name of the client.
 - The size of the transaction in Egyptian pounds.
 - The names and addresses of the strategic/anchor investors.
 - The medium through which the prospective strategic/anchor investor was identified and approached.
 - The role played by the firm in performing the other investment banking services to consummate the transaction.
 - A brief description of the manner by which the investment advisor promoted successfully the transaction in question.
- IX. The firm's capabilities in the area of research. Under this item, the type of research, publications, date of first issue and frequency, as well as the type and numbers of researchers employed in a particular research and publication ought to be provided. Examples are:
- Economic coverage of economic indicators in the Egyptian economy.
 - Periodical coverage of the economies of the surrounding Arab countries.
 - Periodical coverage of the economies of certain industrialized countries.
 - Periodical publications of financial and investment analytical research of sectors, industries and specific companies in Egypt.
 - Periodical publications covering financial and investment analytical research of sectors, industries and companies in surrounding Arab countries.
 - Periodical publications of financial and investment analytical research of sectors, industries and specific firms in certain industrialized countries.
 - Periodical publications on securities analysis, of financial securities traded in the Egypt market.

- Periodical publications on securities analysis, of financial securities of a selective range of Arab and foreign companies, as traded in their respective markets.

X. Attachments. The investment promoter/advisor ought to provide the following documentation, as attachments, beside providing the above information.

Examples are as follows:

- A booklet containing press clippings about the firm and investment banking transactions.
- A booklet containing press commentaries and articles about the founders/partners and senior management.
- A booklet displaying various tombstones of concluded transactions to which the firm is a party, and as they appear in the press.
- A booklet displaying the different medals and awards for professional excellence won by the firm or/and its executives.
- Recent research reports published by the firm.
- A company brochure.
- The company's annual reports for the last three years.
- Others.

(Synopsis Translation of Arabic Original)

Working Paper On

Selection and Engagement of an Investment Promoter

Page 1

The National Building & Construction Holding Company

The Role of the Investment Promoters, Methodology for their Evaluation and Selection.

A Strategic Investor

Page 2

Table of Contents:

Introduction

The Main Objective, the Ultimate Purpose

Justifications for Engaging the Services of an Investment Promoter/Banker

Conditions & Financial Commitment of the Investment Promoter

“Added Value”: Negotiating from a Position of Strength

A. The Role of the Investment Promoter

1. Assist in preparing the company for sale.

2. Effect the sale placement.

3. Assist in the preparation of the Tender Documents, and the process of Tender solicitation

4. Setting guidelines, Tender evaluation process.

5. Assist in the consummation of the sale.

B. The Short-list and Tender Documents for selecting an Investment Promoter/Banker.

Page 3

Heading: The Main Objective, the Ultimate Purpose

Content: Achievement of the Optimal Value/Price

Page 4

Heading: Justification for soliciting the services of Investment Promoters/Bankers

Content: Attractiveness (desirability) of the Investment

- An attractive Investment
- A less desirable Investment.

Sale strategy:

- Public Offering
- Strategic/Anchor Investor

Page 5

Heading: Conditions & Financial Obligations of the Investment Promoter

Content: Underwriter/ Guarantor and Agent

Page 6

Heading: Adding Value: Negotiating from a Position of Strength

Content: Promoter's Skills

- The promoter's technical, organizational, managerial and management systems capabilities, and strategy and method of work.
- The promoter's acquaintance, and familiarity with the industry and business-activity of the company subject of sale; knowledge of the financial, technical, managerial, marketing and competitive aspects of the company's operations. Ability to portray actual value and potential to investor.
- The promoter's full understanding of the market forces at play, based on analysis. By extension, a knowledge of players in the market who could qualify as potential strategic investors.
- The ability of the promoter to highlight the benefits of the deal, and the competitive advantages of the company; the ability to assist in formulating competitive strategies, to enhance the company's value and prospects for sale, to construct a business plan based on convincing assumptions and logical projections.
- Possess an extended web of business contacts, and an extended reach that would improve the chances of identifying and attracting the desirable candidate investors.
- Creativity, and ability to conceptualize and structure optimal financing of the deal; knowledge and reach in the financial markets to advise on the source of the funds to consummate the sale.

Page 7

Heading: The Role of the Investment Promoter

Content: As in the table of contents, above, with further elaboration in pages 8, 9, 10, 11 and 12, below.

Page 8

Heading: Preparing the Company for Privatization/Sale

Content: Data Compilation

- Participate and assist in the valuation of the company. This is based on the promoter conducting a reasonable degree of due diligence, financial analysis, assessment of the investing market conditions (timing) to establish - to the promoter's satisfaction, - a realizable fair value of the company.
- Assist in compiling the requisite audited data, information and documents about the company to include in a comprehensive "*Information Memorandum*." This with the purpose of facilitating and expediting the performance of due diligence by the prospective investor.

Page 9

Heading: Promoting the Sale – Placement Power

Content: Market Analysis

- Draw a work-plan (strategy) for privatizing the company, with the object of achieving the highest feasible realizable price. This is in conjunction with a well- defined schedule for effecting the sale.
- Conduct an in-depth, comprehensive study on prospective strategic investors, drawing on the widest base possible, and prepare a report with full analysis on the prospects for sale.
- Engage the promoter's network to identify prospective investors, and disseminate information about the company, high-lighting its potential and salient features to attract the desirable investors. Communicate with prospective investors, answer their queries as they arise.

Page 10

Heading: Assist in the Preparation of the Tender Documents, and the Invitation to Tender

Content: Sale Documents

Assist in the Preparation of all the Tender Documents, including:

- Terms and Conditions

- Information Memorandum
- A sample contract
- Assist in the design of the advertisement of the Tender Solicitation and the guidelines of procedures to follow.

Page 11

Heading: Establishing Guidelines and Assisting in the Evaluation of Tenders.

Contents: Procedure

- Assist in designing detailed guidelines for procedures; evaluate Tenders.
 - Establish procedures to assure full transparency.

Page 12

Heading: Consummating the Sale

Content: Final Negotiation

- Assist in formulating the letter to the winning bidder.
- Assist in formulating negotiation strategies, and assist in the details of the final negotiations with the winning bidder.
- Assist in the design and preparation of the legal documents, and assist in all the steps and procedures to successfully consummate the sale in conformity with the contractual conditions.
- Assist in the procedures to registering and listing the sold company in the stock market.

Page 13

Heading: The list and content of Tender Documents for selecting the Investment Promoters

Content: Documents

- The Invitation to Tender
- Terms and Conditions
- Terms of Reference
- The requirements in the Technical Proposal
- The requirements in the Financial Proposal
- General information regarding the company subject of sale
- The time schedule until the award of contract

Page 14

Heading: The Content of the Technical Proposal

Content: Bid Documents

- Detailed analysis of the method and plan of work.
- A detailed schedule for achieving each element/component/task, along with the promoter's plan to compiling a short list of prospective strategic investors.
- Description of the suggested working team for the project, along with diagrams and charts describing the organization of the work team, and clear definitions of responsibilities and authorities of each individual.
- A profile, or a Curriculum Vitae of each member of the proposed work team.
- List the relevant experiences and relevant strengths of the bidding investment promoter.

Page 15

Heading: Content of the Financial Proposal

Content: Fees:

- Retainer Fees
- Success Fee

Page 16

Heading: The Time Schedule to Awarding the Contract

Content: Sequence of activities from announcement inviting to tender until final award of contracts.