

Gulf Capital

ADES Case Study

Impact of private debt investing in the MENA Region



October 2016

ADES Group

Transaction Highlights

- ADES is a main player in the upstream oil and gas services in Egypt.
- Gulf Credit Partners made a US\$ 25 million investment in August 2014
- The investment funded growth capital and acquisition finance
- Bespoke structure allowed ADES to finance growth capital and acquire oil exploration concession
- Investment highlights Gulf Credit Partners ability to weigh each investment on its own merits despite significant political economic uncertainty in Egypt

The Group

ADES International Holding Ltd. ("ADES" or the "Group") is a main player in the upstream oil and gas services in Egypt. ADES offers integrated services using innovative technology, quality equipment, high safety standards and a strong staff composed of experiences industry veterans.

The Group currently manages a fleet of 10 onshore assets and 6 shallow water offshore assets and expects to commission two new offshore assets as well as two onshore assets during 2016.

Since its foundation in 1997, ADES' onshore entities have grown to become the third largest player in Egypt. Despite a relatively late entry into the offshore market, ADES has made significant inroads against well-established international competitors. With a market share standing at approximately 46% of the offshore jack-up drilling market, ADES is the third largest offshore operator in Egypt, which is a significant achievement for a late entrant to the market.

ADES has consolidated both onshore and offshore upstream services, and its customer base includes both E&P nationals and multinational majors, including British Petroleum, Shell, ENI and Apache.



The Investment Story

In August 2014, Fund I committed a US\$ 25 million investment in ADES Group, consisting of a loan with a contractual cash interest and an equity kicker. The facility was used by ADES to finance growth and to acquire part of an oil exploration and production concession in the South Abo Zenima Offshore plot, Egypt.

The opportunity was introduced to the Fund through Gulf Capital's in-house operating partner and expert in Oil & Gas.



Investment Merits

Gulf Credit Partners believed the investment was an attractive opportunity based on the following merits:

- Strong Egyptian oil and gas drilling and services market.
- Strong client base and good pipeline.
- Contracts denominated in US\$, payments made in both US\$ and EGP
- EGP cost base which makes it attractive from a currency risk perspective.
- Disciplined asset acquisition strategy, right assets for the market and high operating margin.
- Highly experienced management team with extensive knowledge of the local market.
- Low leverage and strong cash flow generation

Key Terms

Most of the investments made by Gulf Credit Partners are privately negotiated credit instruments, having a cash yield component, a minimum floor return and a target all-in return which enables the Fund to participate in the growth its portfolio companies.

Size	▪ US\$ 25 million
Term	▪ 6 year (3+3)
Cash Interest	▪ ● % payable quarterly
Equity	▪ ● % of the equity value of the Group, payable in cash at maturity subject to a floor total return
Security	▪ Combination of guarantees from Group entities and share pledges ▪ Interest reserve account of 10% of the outstanding investment amount
Financial Covenants	▪ Leverage (Debt/EBITDA), debt service coverage, interest coverage

Gulf Credit Partners value add

Going into the partnership, Gulf Credit Partners had high confidence in ADES' strategy and operational capability. Gulf Credit Partners saw the need for an institutional partner to implement a strong corporate governance framework in order to support the company in implementing its strategy and expanding its business.

The areas ADES was in most need of improvement were:

- Corporate governance. ADES is a family owned business;
- Financial reporting and oversight; and
- Risk Management.

Gulf Credit Partners have been able to add value to ADES' growth with its holistic value-add approach, through a number of distinct channels:

- *Corporate Governance:* Through Gulf Credit Partners' board observer seat, the team has been able to help steer ADES decision making process and strategic thinking for growth. Gulf Credit Partners board representation helped improve the Group's governance and insured that board meetings are held on a timely manner (at least once a quarter) with a pre-approved and detailed agenda distributed to all board members ahead of the meeting and action items list. Since Gulf Credit Partners investment, ADES has appointed two independent board members, an audit committee and a remuneration committee, a corporate secretary and an independent internal auditor which reports to the audit committee.
- *Debt Structure:* Through its banking relationships, Gulf Credit Partners prepared a roadshow and introduced the Group to a number of investment banks to raise senior debt. ADES signed an agreement with a syndicate of banks,

led by the European Bank for Reconstruction and Development (EBRD), raising a significant debt facility, in order to: (i) refinance existing term loans; (ii) expand working capital facilities; and (iii) finance the acquisition of new assets.

- *Financial Reporting:* Based on Gulf Credit Partners request, the Group recruited a financial reporting team, specialized in reporting to different stakeholders and monitoring compliance with debt covenants. Gulf Credit Partners worked closely with the Group to develop a structured reporting template.
- *Risk Management toolkit:* Gulf Credit Partners has supported the Group in developing a risk management toolkit to keep track of performance vs. operational, financial and environmental KPIs.
 - Operational KPIs include: Fatalities, Lost Time Injury, Lost Time Injury Frequency Rate, etc... ADES has ensured that its staff is properly trained and has avoided any fatalities or injuries in the last three years (the Group delivered 42,296 hours of training to its staff during 2015, in order to minimize risk of injuries).
 - Financial KPIs include: Leverage, Debt Service Coverage, Interest Coverage, Return of Equity, and Return on Assets. With Gulf Credit Partners' support, ADES has developed mechanisms to keep track of these different KPIs and ensure that it remains compliant with different financial covenants. Gulf Credit Partners has also advised ADES to hedge interest rate risk stemming from its floating rate debt.
 - Environmental KPIs include: CO2 emissions and waste emissions. Following Gulf Credit Partners investment, ADES began recording and evaluating environmental KPIs in order to reduce waste and gas emissions.

Using Gulf Credit Partners financing, ADES has grown its business, despite the low oil price environment:

- ADES increased the average duration on its contracts from 1.8 years in 2013 to 3.6 years in 2015.
- The Group continued to expand its business through the acquisition of assets at attractive prices, which allows ADES to remain profitable at low day rates.
- ADES began its geographical expansion by winning its first contract in Algeria and receiving pre-qualification from Aramco in the Kingdom of Saudi Arabia.

The Group is in a good position to grow, as it has secured long term contracts and acquired new assets to be deployed in Egypt and neighbouring markets. The Group continues to seek new assets at attractive prices in order to drive growth and geographic expansion.

Supporting Corporate Social Responsibility initiatives

As a part of ADES' commitment to making a difference, the Group has dedicated funds and resources to providing basic needs for a local community. A team of volunteers, including ADES employees, led by Rotoract Club of Cairo Royal took the initiative to help in bringing light to the village with the aim to introduce solar electricity to this wonderful serene place. El-Heiz village is a sparsely-populated conglomerate made up of several small hamlets about 40km south-west of Bawiti in Bahariya Oasis. Perhaps the 'Fourth Oasis' of the seven mentioned at Edfu Temple, it lies on the main ancient caravan route connecting Farafra and Bahariya oasis.

Comprised of 17 hamlets, El Heiz is home to 3,500 people scattered over a 14 kilometer radius. Given its remoteness, the village has gained little to no attention from neither the government nor development organizations.

Despite its historic and touristic importance, El Heiz is still extremely underdeveloped. The locals in El Heiz still have to live under a fuel based light bulb with no access to electricity. The government has a diesel generator installed in the village which only operates 3 hours a day. With the help of ADES' dedicated funds and resources, solar panels have been installed to generate electricity for the entire village. This has significantly improved the quality of life of inhabitants, who now have access to a constant source of electricity.



Supporting Environmental changes

ADES is required to comply with Gulf Credit Partners internal Environmental and Social Management System framework which is in line with the guidelines and Performance Standards of the International Finance Corporation. This has helped the Group in improving its social and environmental monitoring and reporting (ADES is required to submit an annual environmental and social monitoring report to Gulf Credit Partners – discussed in more detail below).

As an Oil & Gas services company, ADES is required to comply with rigorous national and international environmental standards. The Group, therefore, maintain detailed health, safety and environmental policies.

Why Gulf Credit Partners?

Gulf Credit Partners worked closely with ADES during a period of significant political change and economic uncertainty in Egypt

While banks were reticent to extend credit, Gulf Credit Partners took a view on the business, and was able to provide a flexible financing solution to fund ADES' growth while addressing currency and liquidity concerns.

ADES' views

"The Gulf Credit Partners had a quick response time and have a good understanding of our business"

Gulf Capital

Building the MENA regions leading alternative investment platform

Established in 2006, Gulf Capital has become the Middle East region's most successful alternative investment firm with a track record of industry-leading returns and performance. Based in Abu Dhabi, Gulf Capital has over US\$ 3.4 billion in assets under management prudently invested in the most commercially vibrant sectors of one of the world's highest growth regions.

This success has been built on the region's most diversified investment platforms, spread across high-growth sectors with long-term potential. From its HQ in Abu Dhabi, its experienced management team, backed by over 250 high profile shareholders including sovereign wealth funds, global financial institutions, and leading regional family groups - capitalise on a deep-rooted knowledge of the commercial landscape to source the Gulf's most attractive investment opportunities.

Gulf Credit Partners Team

Gulf Credit Partners is the private debt and mezzanine division of Gulf Capital. Through its private debt funds, Gulf Credit Partners provides bespoke private debt financing solutions to mid-market private sector companies in the Middle East, Africa and Turkey. Our dedicated investment professionals have extensive and complementary credit, leveraged finance and investment management experience enabling them to create value in our portfolio companies.

Our Diversity

Gulf Credit Partners is committed to and promotes a diversified workforce that includes 10 nationalities with heritages from across the globe, and a gender mix of staff (25% female - 75% male)

Our Environmental, Social and Governance (ESG) Commitment and Approach

Gulf Credit Partners believe that ESG factors positively contribute to investment performance, as well as contributing to help build a more stable, sustainable and inclusive global economy. By incorporating ESG criteria into our investment decision making and investment practices we can influence the companies we invest in to improve their performance.

Gulf Credit Partners has adopted the International Finance Corporation's (IFC) Environmental and Social Management System (ESMS) and Integrity Management System (IMS) guidelines and has implemented a robust governance framework based on Dubai International Financial Centre (DIFC) and

Dubai Financial Services Authority (DFSA) requirements, as well as international best practices.

Gulf Capital Credit Partners Ltd operates out of the DIFC and is licensed and regulated by the DFSA.

Gulf Credit Partners employ a holistic, disciplined, value-focused and credit-oriented approach when evaluating each investment opportunity, adhering to a rigorous and risk-averse investment process that includes thorough and detailed due diligence :

Investment Compliance

- Know Your Client (KYC), Anti-Money Laundering (AML) and Counter Terrorist Financing (CFT) checks are conducted and documented prior to any investment and also monitored throughout the life of the investment.

Anti-corruption

- Gulf Credit Partners follow the provisions of the World Bank Group anticorruption guidelines and policies.

Exclusion Lists

- All investments are subject to a screening against the IFC exclusion list and must comply with the relevant IFC performance standards on environmental and social sustainability.

E&S policies and processes framework

- Gulf Credit Partners undertake thorough Environmental and Social Due Diligence (ESDD) based on the Fund's internal ESMS policies and IFC's Performance Standards.

Our Private Debt funds

GC Credit Opportunities Fund, L.P.
US\$ 221 million (2012)

Fund I is the flagship private debt and mezzanine fund of Gulf Capital and has made several investments across the region including Egypt, Turkey and the United Arab Emirates. Sectors include Healthcare, Education, Oil&Gas, Industrials, Security, Power, Telecoms and Facilities Management.

GC Credit Opportunities Fund II, L.P.
US\$ 250 million (2016)

Following the successful deployment of Fund I in three years, Gulf Capital launched its second private debt and mezzanine fund, GC Credit Opportunities Fund II, L.P. With Fund II, Gulf Capital becomes the largest private debt player in the Middle East, which in itself is a significant achievement

Fund II will continue the successful strategy of Fund I, private debt investing in mid-market companies in the Middle East, Turkey and now expanding into Africa.

Why Gulf Capital Credit Partners?

Responsive

- Quick and consistent feedback
- Ability to move quickly with comprehensive due diligence and closing process
- Responsive Investment Committee

Flexible Capital

- Ability to invest throughout the capital structure based on a company's business needs
- Flexible and tailored to a broad set of needs of sponsors, entrepreneurs, owners and financial investors
- Bespoke structure, pricing and terms

Experienced

- Team of dedicated investment professionals with extensive and complementary credit, leveraged finance and investment management experience enabling value creation in our portfolio companies

Our Investment Criteria

Investment sizes:

- US\$ 10-30 million

Investment types:

- Subordinated Loans
- Mezzanine Debt
- Convertible Loans
- Preferred Equity

Geography:

- Middle East
- Africa
- Turkey

Target company characteristics:

- Solid sector fundamentals
- Experienced management team
- Revenue and cash flow stability and predictability
- Strong corporate governance
- Established value proposition

Gulf Capital's Private Debt Funds invest in companies that are generating more than US\$ 5 million in EBITDA and have revenues between US\$ 15 million and US\$ 250 million

Private Debt is suitable for growth capital, acquisition finance, buyouts and recapitalizations

Contact

ADES Deal Team

Walid Cherif

Senior Managing Director and Head
+971 4 436 6801
wcherif@gulfcapital.com

Rami Matar

Senior Associate
+971 4 436 6807
rmatar@gulfcapital.com

Investor Relations

Elizabeth Donaghy

Engagement Manager
+971 4 436 6808
edonaghy@gulfcapital.com

Gulf Capital Credit Partners Limited

Office 2802, Level 28, Tower 2
Al Fattan Currency House
Dubai International Financial Centre
Dubai, United Arab Emirates

PO Box 506965
T: +971 4 436 6800
www.gulfcapital.com
Regulated by the DFSA