Turkish private equity market

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There are solid reasons to expect an overall increase in the FDI (foreign direct investment) and VC/PE (venture capital/private equity) activity in Turkey which is ready for a long period of superior sustainable growth evidenced by the performance in the last three years, after a long period of stagnation and several crisis, due to structural reforms successfully executed by the stable government, increasing overall productivity and competitiveness, strengthening domestic market and promising developments towards Turkey's accession to the EU.

In spite of the significant increase in VC/PE activity in similar emerging markets and mismatch of abundant deal flow and capital scarcity in Turkey, the institutional VC/PE activity in Turkey has been quite limited. From 1995 to 1999, only about US$100m was invested. Even in the buoyant year 2000 alone, close to US$100m was invested. After a complete stop in PE activity during the 2001 crisis, the activity continued at a rate of just one or two deals a year fro one year with total size of around US$40m in the following years. Currently, with substantial managerial resources and past investments, there are only four active funds with committed capital of around US$300m. There are few other funds that cover Turkey from abroad with or without regional representation. The exits have also been limited - only one trade sale exit and two IPO exits until now. The PE funds generally have not invested in seed or start-up stages, the funds are mostly interested in medium sized companies. Especially over the last two years, buyout investments where majority of the shares were acquired have been on the rise.

Considering the jurisdiction and legal status, venture investments are undertaken by: i) VC firms founded in Turkey following the restrictions of VCIT (Venture Capital Investment Trust(s)) legislation, by CMB (Capital Markets Board), to enjoy certain tax breaks; ii) non-VCIT Turkish firms or holding companies; and iii) foreign entities some of which have management companies in Turkey. The majority of the VC/PE activity was undertaken by this third group of investors where funds are invested from abroad and they are comprised of dedicated country or regional limited partnership funds, subsidiaries of financial institutions, international development banks and multilateral organisations.

In this newly developing VC/PE market, the objectives of TurkVCa are i) to bolster the quality of deal flow by improving the entrepreneurial environment in Turkey, awareness of VC/PE among the ventures, corporate governance, accounting and information standards, managerial resources; ii) to improve the regulatory framework under which VC/PE funds operate; iii) to promote Turkish VC/PE to institutional investors worldwide; and iv) to improve the exit alternatives.

TurkVCa has been active since an introductory panel discussion on VC/PE in Istanbul Stock Exchange on Private Equity in March 2001. The difficulties of the Turkish VC/PE industry were discussed in another panel in June 2002, which was followed with specific events that tackled the issues of minority shareholder rights and legal enforcement, quality and quantity of deal flow and venture capital legislation. In the summer of 2004, TurkVCa has become the sole organisation that attempts to improve the Turkish VC environment by consolidating the activities of two parallel organisations under one roof.

As a result of the discussions and presentations during TurkVCa's working seminars, CMB first allowed options and future contacts in PE investments. Then based on a report on deficiencies of the former VCIT legislation, in early 2003, CMB passed a new legislation that removed a number of restrictions of the former legislation. The VCITs that are funded by accredited investors are no longer required to list shares in the stock market, disclose detailed information on the portfolio companies, and make investments in portfolio companies prior to issuing shares to accredited investors. The minimum capital requirement for this type of VCITs is also currently one-fifth of the capital requirement of VCITs that can sell to the public. The restriction about the minimum life of a VCIT was also removed with the new legislation. After these changes in the legislation, there have been a number of applications to set up funds under VCIT legislation.

Turkish VC/PE market is finally changing face. With the positive economic and political developments, we observe an increase in the attempts to set up new funds in Turkey or to seek deal flow from Turkey. At TurkVCa, we intend to support the funds targeting Turkey, as well as increase awareness about the availability and advantages of this financing mechanism.

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