



SIGMABLEYZER

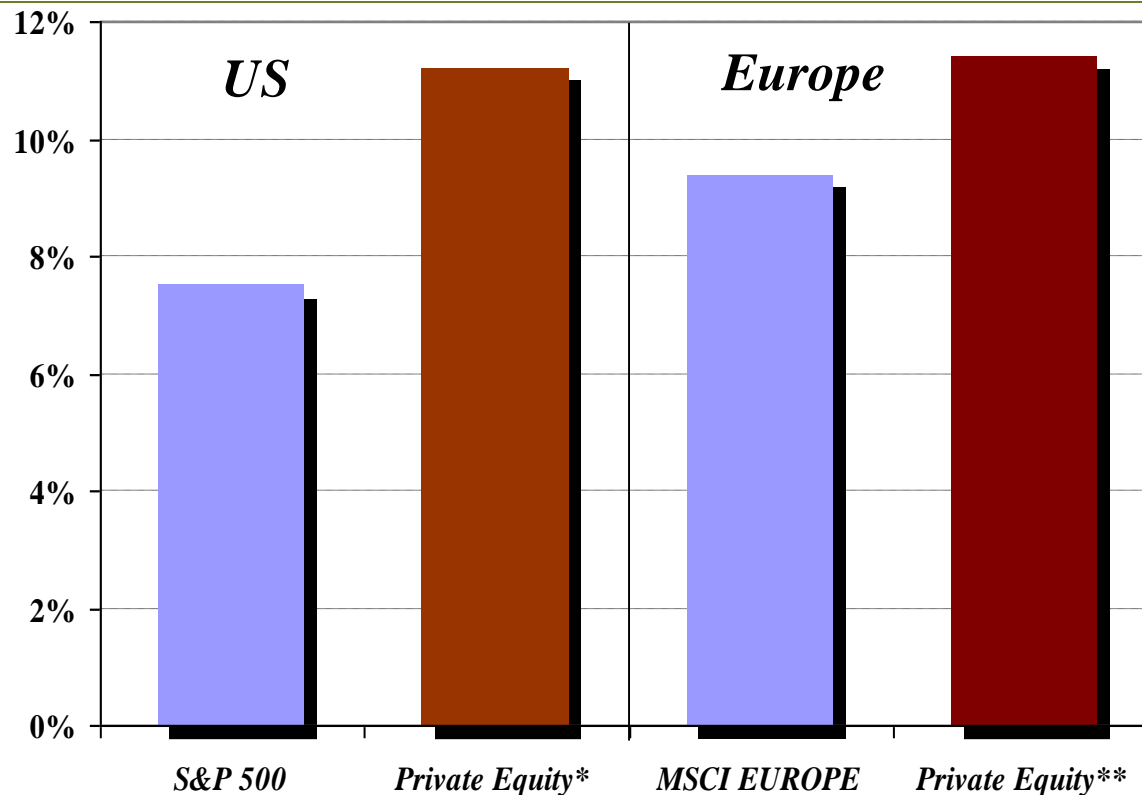


## *Private Equity in Emerging Markets*

Michael Bleyzer  
February 27, 2007  
London Business School

# Returns of Private Equity vs. Public Equity

## The ten-year Investment Horizon Return

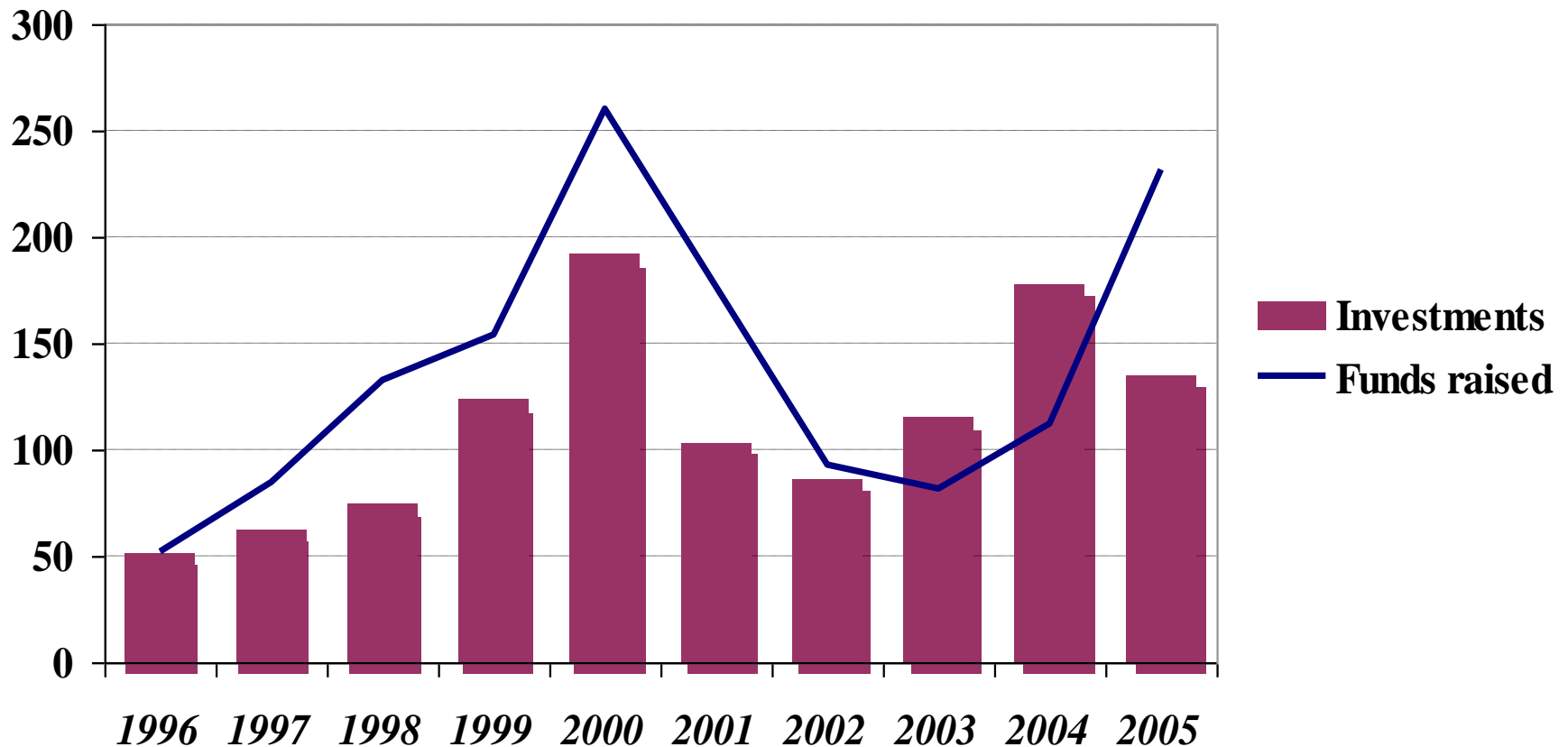


\* Thomson Financials' US Private Equity Performance Index (PEPI), through 09/30/2006

\*\* Thomson Financials' Pan-European Survey of Performance, through 12/31/2005

Source: Thomson Financials, EVCA

# Global Private Equity, 1996-2005 (\$ billion)



Source: International Financial Services, London (IFSL)

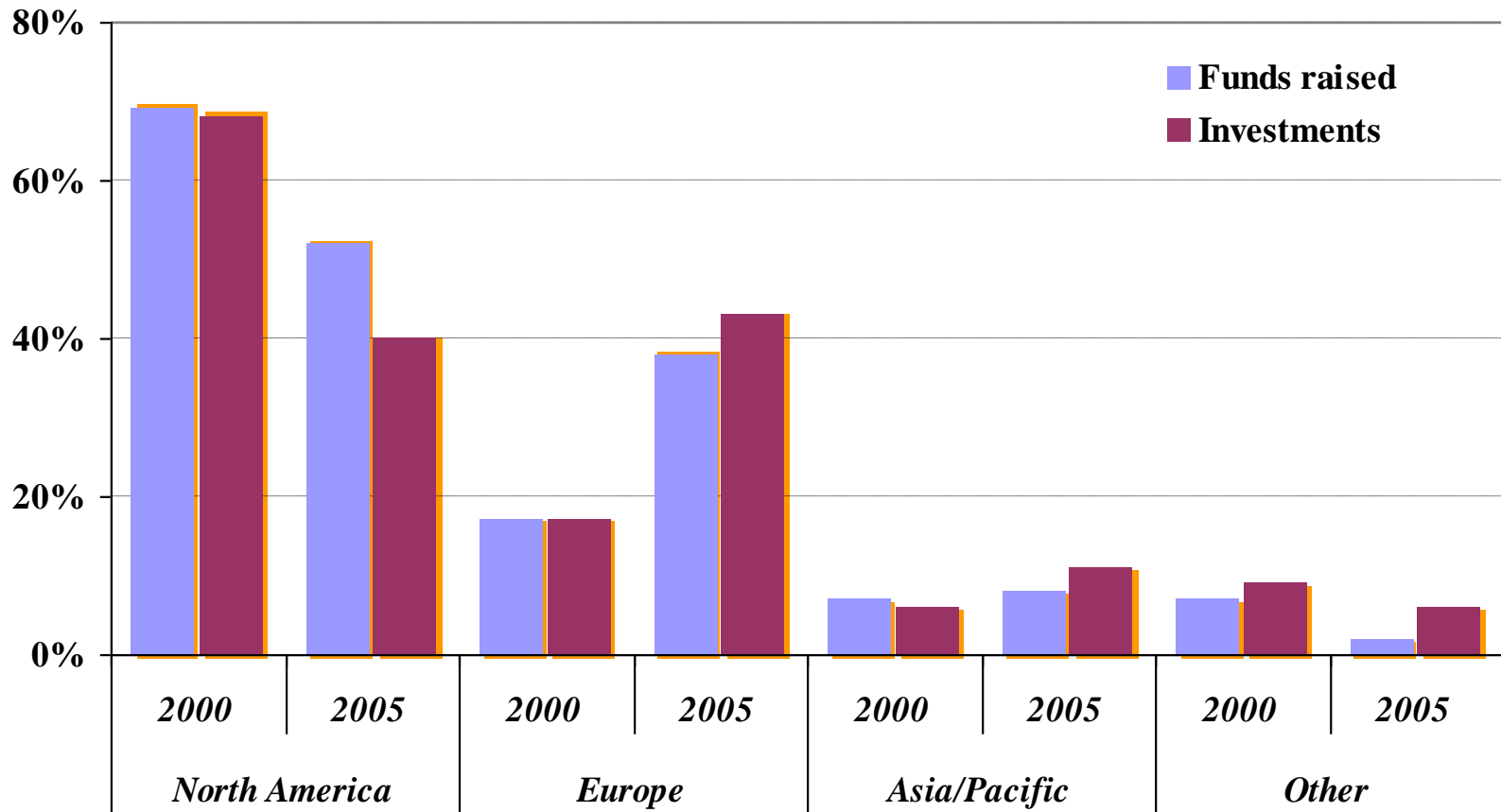
According to the estimates of the Private Equity Intelligence, global private equity fundraising amounted to \$ 432 billion in 2006

# Private Equity in 2006 - 2007

- Private-equity firms announced a record of more than \$700 billion in takeovers in 2006 and almost \$50 billion already in 2007
- Investors, seeking returns that exceed stocks and bonds, poured \$432 billion into buyout funds last year, also a record, according to London-based Private Equity Intelligence Ltd.
- KKR has raised \$16.1 billion for a new U.S. buyout fund and expects to reach its cap of \$16.6 billion
- Goldman Sachs may raise more than \$18 billion for leveraged buyouts, almost double what it initially sought
- Blackstone latest fund will be \$20 billion, making it the industry's largest
- KKR will pay at least \$837 million in fees to IBs for deals in 2006
- A record level of LBOs in 2006 will generate \$11 billion in fees for IBs
- Private equity firms have about \$409 billion available in cash to invest and can raise another \$1.2 trillion

*Source: Bloomberg*

# Global Private Equity, by Region (% of total)



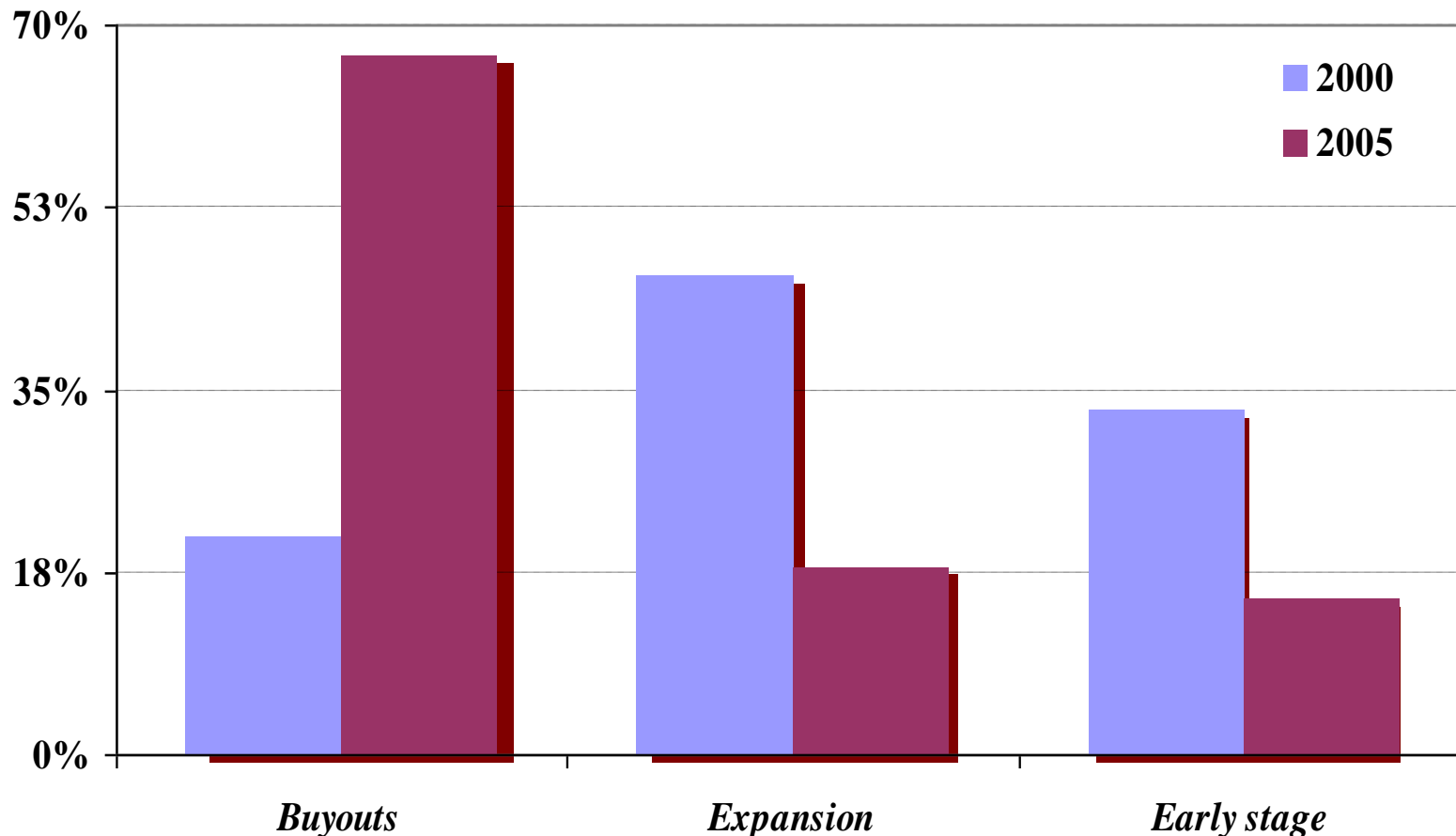
Source: International Financial Services, London (IFSL)

## Global Private Equity as a Percentage of GDP, by Region

<i>Region</i>	<i>Private equity funds raised in 2005, \$ billion</i>	<i>\$ billion of PE funds raised per \$ trillion of GDP</i>
North America	111.1	9.1
Europe	76.9	7.8
Australasia	2.1	3.5
Asia	20.5	1.2
Eastern Europe	2.7	0.9
South America	0.7	0.2
Africa	0.1	0.1

*Source: PEI*

# Global Private Equity Investments by Financing Stage, % of total



Source: International Financial Services, London (IFSL)

# Buyout Boom in US and Western Europe

- Feb. 26 (Bloomberg) – KKR and TPG are buying TXU Corp., the largest power producer in Texas, for \$45 billion (including debt) in the biggest-ever leveraged buyout
- The U.S. Justice Department is investigating whether collaboration among buyout firms limits competition for takeovers. So-called club deals have become more common as PE firms pursue larger companies
- Recently Blackstone bought Equity Office Properties Trust, the largest U.S. owner of office buildings, for \$39 billion including debt
- The largest LBO before Equity Office was the \$33 billion purchase in November 2006 of hospital chain HCA Inc. by Bain Capital LLC, Kohlberg Kravis, Merrill Lynch & Co. and HCA co-founder Thomas F. Frist Jr.
- That topped the \$31.3 billion that Kohlberg Kravis paid in 1989 for RJR Nabisco Inc.

*Source: Bloomberg*



## Private Equity sex appeal

*“If you find a job in a private equity fund you will be envy of many of your friends, even if they work in the world's top investment banks. Private equity funds don't employ many people and the few they do can earn stupendous amounts of money. While bankers live in fear of redundancies, senior private equity professionals also come as close as you can get in the financial services industry to having a job for life.”*

*<http://news.efinancialcareers.co.uk/>*

# Where Would You Rather Invest?

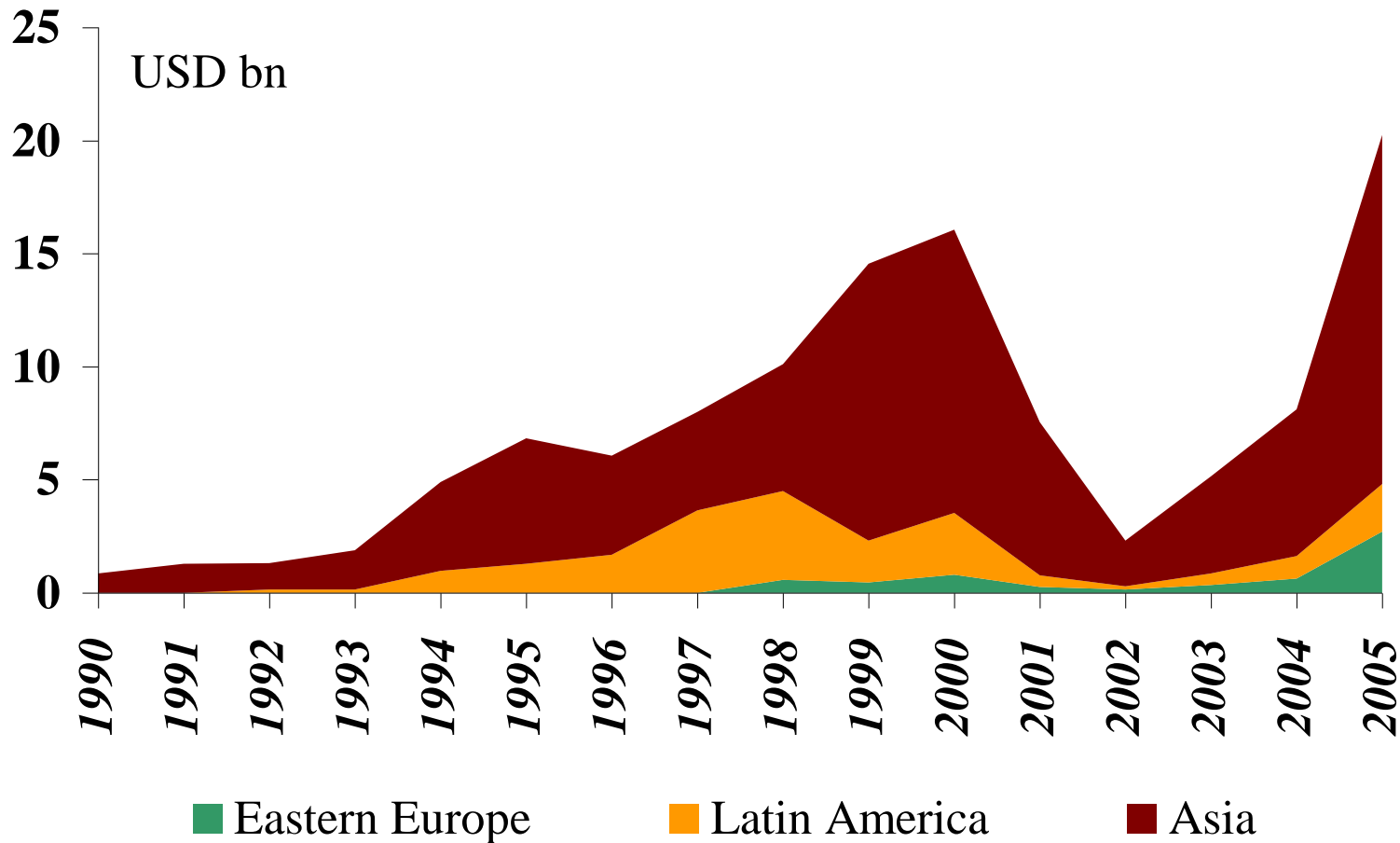
- Efficient market
- “Fully priced”
- “Priced to perfection”
- High correlation
- Sophisticated investment strategies
- Perceived low risk
- Billions of \$\$ chasing opportunities
- Everyone is buying
- Efficient businesses
- Limited upside

**Mature Markets**

- Inefficient market
- Cheap assets
- “Priced to failure”
- Low correlation
- Simple investment strategies
- Perceived high risk
- Millions of \$\$ observing opportunities
- Everyone is selling
- “Value destroyers”
- Unlimited upside

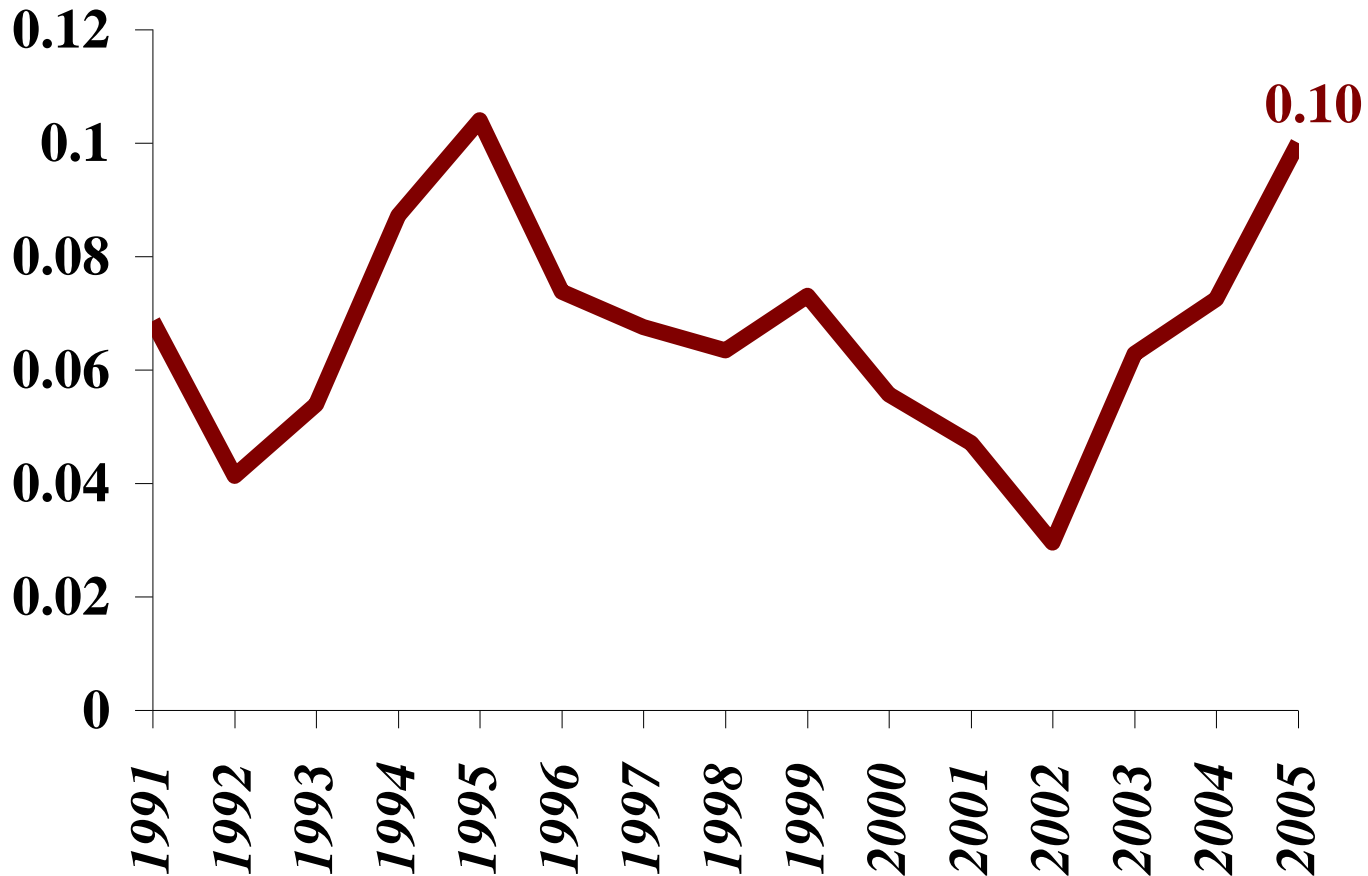
**Emerging Markets**

# Private Equity Fundraising in Emerging Markets, by Region



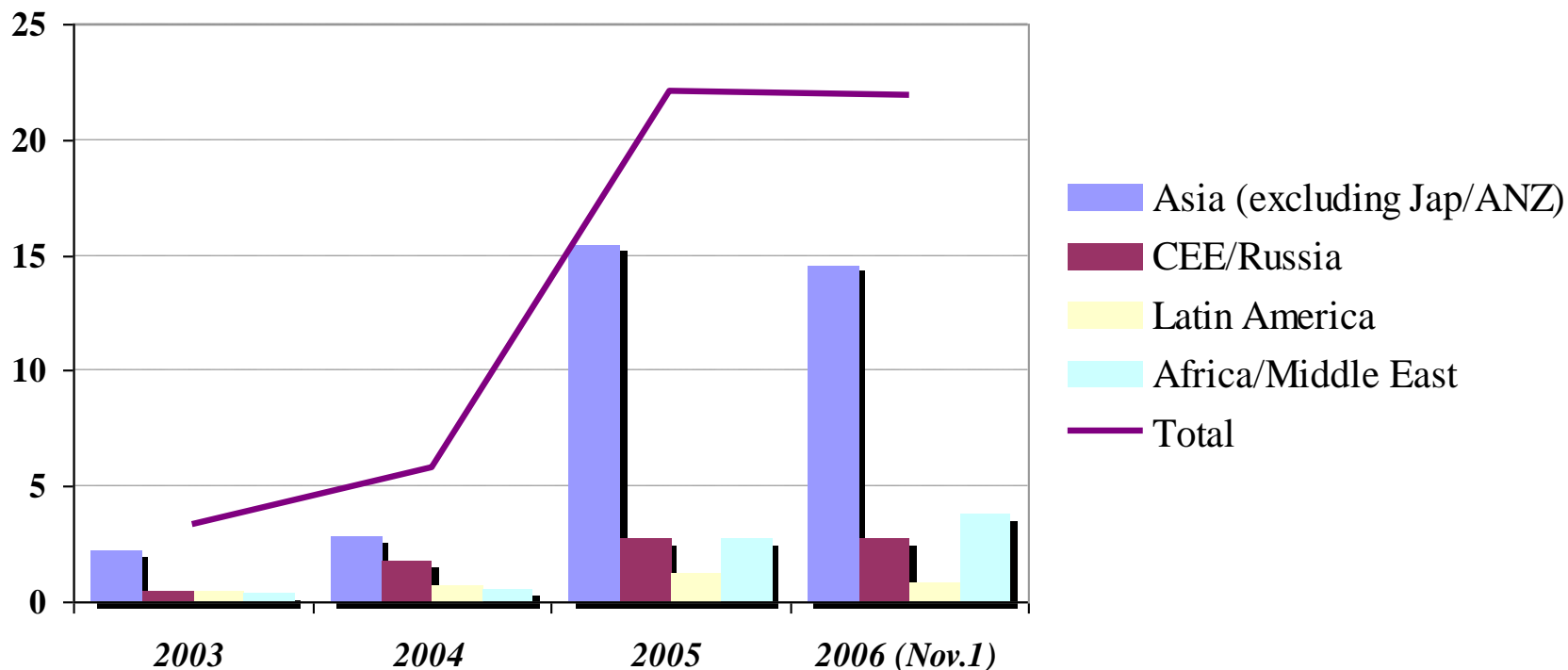
Source: EMPEA, PEI, Josh Lerner

# Emerging Markets Share in Global Fundraising, %



Source: EMPEA, PEI, Josh Lerner

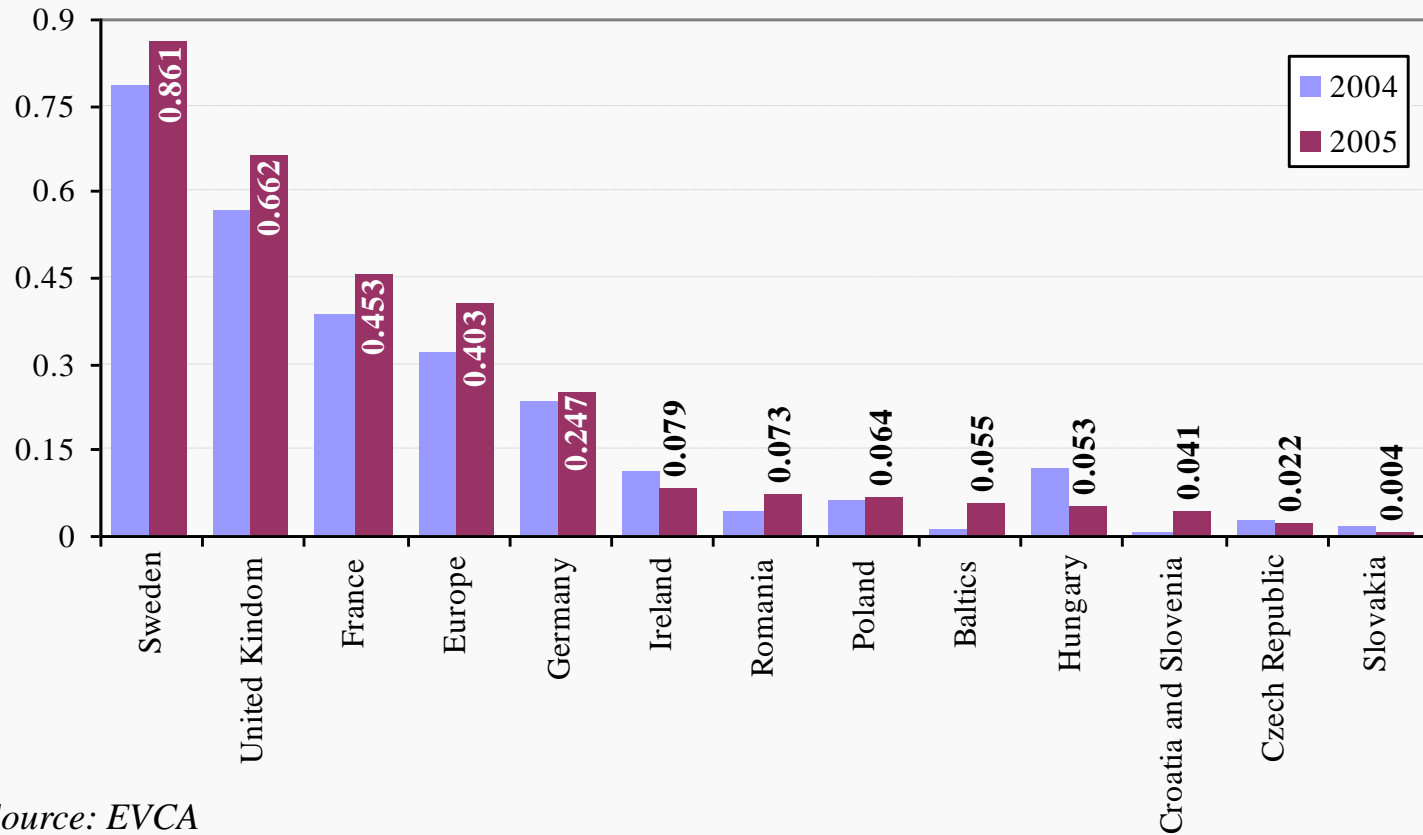
# Fundraising for Private Equity Investments in Emerging Markets and Eastern Europe, \$ billion



<i>Eastern Europe</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Funds raised	0.57	0.38	0.96	1.1	0.7	0.37	0.6	0.35	1.78	2.71

Source: EMPEA

# PE Investments as a Percentage of GDP



Source: EVCA

- *Central and Eastern Europe private equity investments make up only a fraction of their GDP compared to the West*

# PE Fundraising for CEE (in USD millions)

## 2004

ABN AMRO Danube Ventures BV	30.70
Delta Russia Fund	60.00
Dolphin Capital Investors	119.40
Euroventures Danube	18.80
Euroventures HungaryIII	9.90
Greek State Development Fund	4.00
Is Venture Capital Investment Trust	40.00
Polish Enterprise Fund V, L.P.	381.00
Poteza Adriatic Fund	48.90
Zaitech Fund	40.90
<b>Total</b>	<b>753.60</b>

## 2005

3TS Central European Fund II	128.20
Baring Vostok Private Equity Fund III	400.00
Corvinus International Investment Rt	0.60
Delta Russia Fund	60.00
Elkon Mezzanine	30.80
Environment Investment Partners II	5.00
Euroventures HungaryIII	22.80
Euroventures Ukraine Fund II	35.00
GED Eastern Fund II	61.50
Mint Capital II	70.00
Royalton Capital Investors (FKA: Emerging Europe Capital)	7.00
<b>Total</b>	<b>820.90</b>

## 2006

<b>SigmaBleyzer SEE SBF IV</b>	<b>326.00</b>
Alfa Private Equity Partners, L.P.	105.00
South Eastern Europe Fund (AKA: SEEF)	235.00
Mid Europa Emerging Europe Convergence Fund II	834.00
<b>Total</b>	<b>1,500.00</b>

Source: SigmaBleyzer,  
Thomson Financial, EVCA

# Private Equity Investments in Emerging Markets

- PE in Emerging Markets – new frontier of the XXI century
- Mature markets provide diminishing returns on public equity due to increased market efficiency
- Private equity industry in US and Western Europe is approaching maturity
- Emerging markets offer the greatest value creation potential in the world because they start with a very low base – most enterprises in EM are “net value destroyers”
- The best way to unlock this value is through strategic investment by multinational corporations and private equity funds
- Private equity investments in emerging markets prepare the grounds for strategic industry players, while making money for their investors – true win-win for both
- EM PE – new specialty, new skills, new class of professionals





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SigmaBleyzer Experience

# SigmaBleyzer Business Model

- Emerging markets specialist with a focus on transition economies of Eastern Europe and a unique socially responsible investment approach developed specifically for managing PE investments in the initial stages of market economy
- Long term commitment to the region – biculturalism as a prerequisite for business
- Creating large local investment infrastructure
- Taking controlling positions and getting actively involved in every facet of each portfolio company - an industrialist approach to private equity
- Promoting a positive image of Western capital with social responsibilities to counter anti-globalization pressures
- Global experience in benchmarking transition economies and developing countries (The Bleyzer Foundation)

# Hybrid Investment Style

- Simultaneous efforts: adding value at micro and macro levels
- Private equity investment at micro / enterprise level
  - Acquire control in high growth potential companies
  - Actively add value
  - Improve company efficiency
- Advocacy of economic reform at macro / government level
  - Create a better business environment
  - Promote transparency
  - Reduce corruption
  - Contribute to increased levels of FDI
  - Improve economy and market efficiency
- Hybrid investment approach creates real value for LPs while creating value for the countries of operation

# The Bleyzer Foundation Investment Drivers

1. Macroeconomic Performance
2. Liberalization and Deregulation of Business Activities
3. Stable and Predictable Legal Environment (the Rule of Law)
4. Privatization, Public Administration reform and Corporate Governance
5. Removal of International Capital & Foreign Trade Restrictions
6. Facilitation of Business Financing by the Financial Sector
7. Reducing Corruption levels
8. Minimization of Political Risks
9. Improving Country Promotion and Image

# SBF IV Fund Summary

- SigmaBleyzer Southeast Europe Fund IV (SBF IV) is a €250M private equity fund designed to invest in mid-cap buyouts mostly in Ukraine and in selected opportunities in Bulgaria and Romania
- SBF IV is managed by an experienced team of senior managers working together for 8-12 years
- SigmaBleyzer's first three funds invested in Ukraine only, and enjoyed outstanding Western institutional and leading family office support (UGF family of funds – Ukrainian Growth Funds I, II and III)
- SBF IV is registered in the Netherlands as a Dutch limited partnership with participation exemption granted
- Large pipeline of attractive deals, 30% of the capital (€75M) has been called, expect to commit close to 50% of the fund or more in 2007
- Focus on several large deals in cable, pharma retail, food and beverage, financial sector, retail, IT, construction materials

# Principal Terms

- Management fee: 2%
- Organization Expenses: up to lesser of 1.0% and €1.25 million
- Carry: 20%
- Preferred Return: 8% (with catch-up)
- 10 year partnership (two one-year extensions)
- 5 years to invest, 5 years to harvest
- 10 – 15 deals
- 3 – 5 year estimated holding period for investments
- Co-investment Policy – pro rata to investments in the fund

## SBF Portfolio – Cable Investments

- In the process of acquiring cable properties throughout Ukraine
- SBF IV has already acquired control over 600k subscribers and 800k homes passed
  - Total subscribers will increase to over 800K subs in these existing networks over the next 1-2 years through increased penetration rates and buildouts
- Negotiations are underway to acquire several more companies throughout Ukraine with an aggregate number of 300k to 400k subs
  - When acquired, these networks will support additions of another 100k to 200k subs, bringing the total to over 500k subs
- Total number of subs to be acquired is targeted at 1,000,000, with the potential of reaching 1,250,000 subscribers

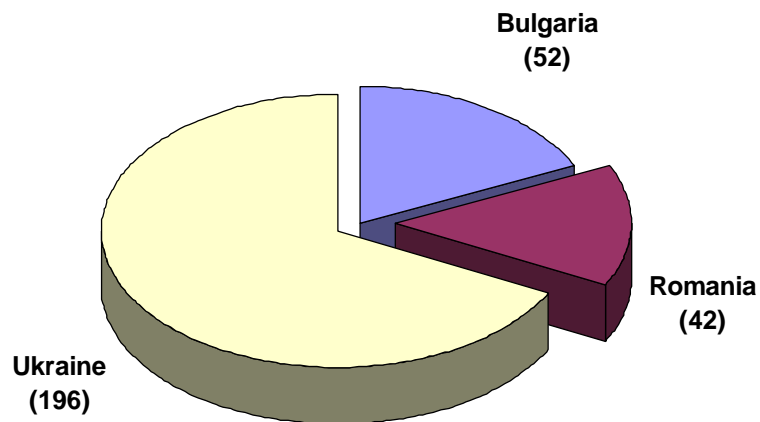
# SBF Portfolio – Food & Beverage / Other

- Food & Beverage
  - €30 million committed to the acquisition and modernization of two confectioneries in Ukraine and Bulgaria
  - LOIs signed
  - Due diligence completed on one company, and wrapping up on the other
  - Bulgarian acquisition is expected to close Q1-Q2 2007
- Other Sectors
  - Several active deals in financials services, pharmaceuticals, retail, packaging and other sectors
    - Targets identified
    - Due diligence teams actively engaged
- We anticipate that approximately €100 million or more will be invested by mid 2007



# Deal Flow

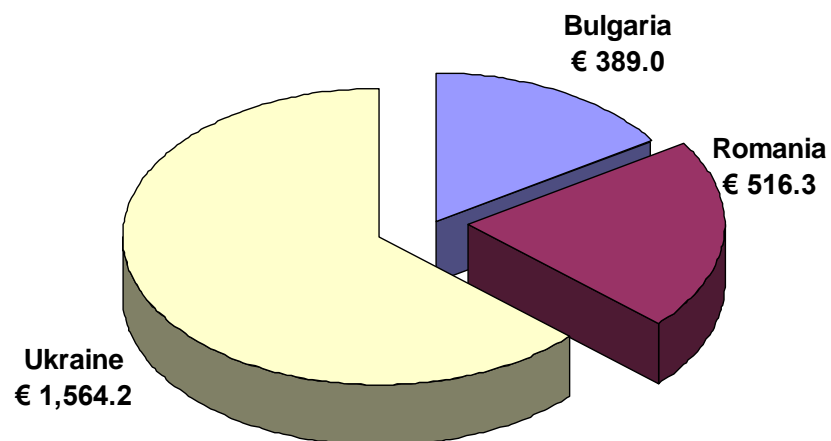
Number of Deals and Market Size of Pipeline  
By Country



**Total Potential Deals: 290**

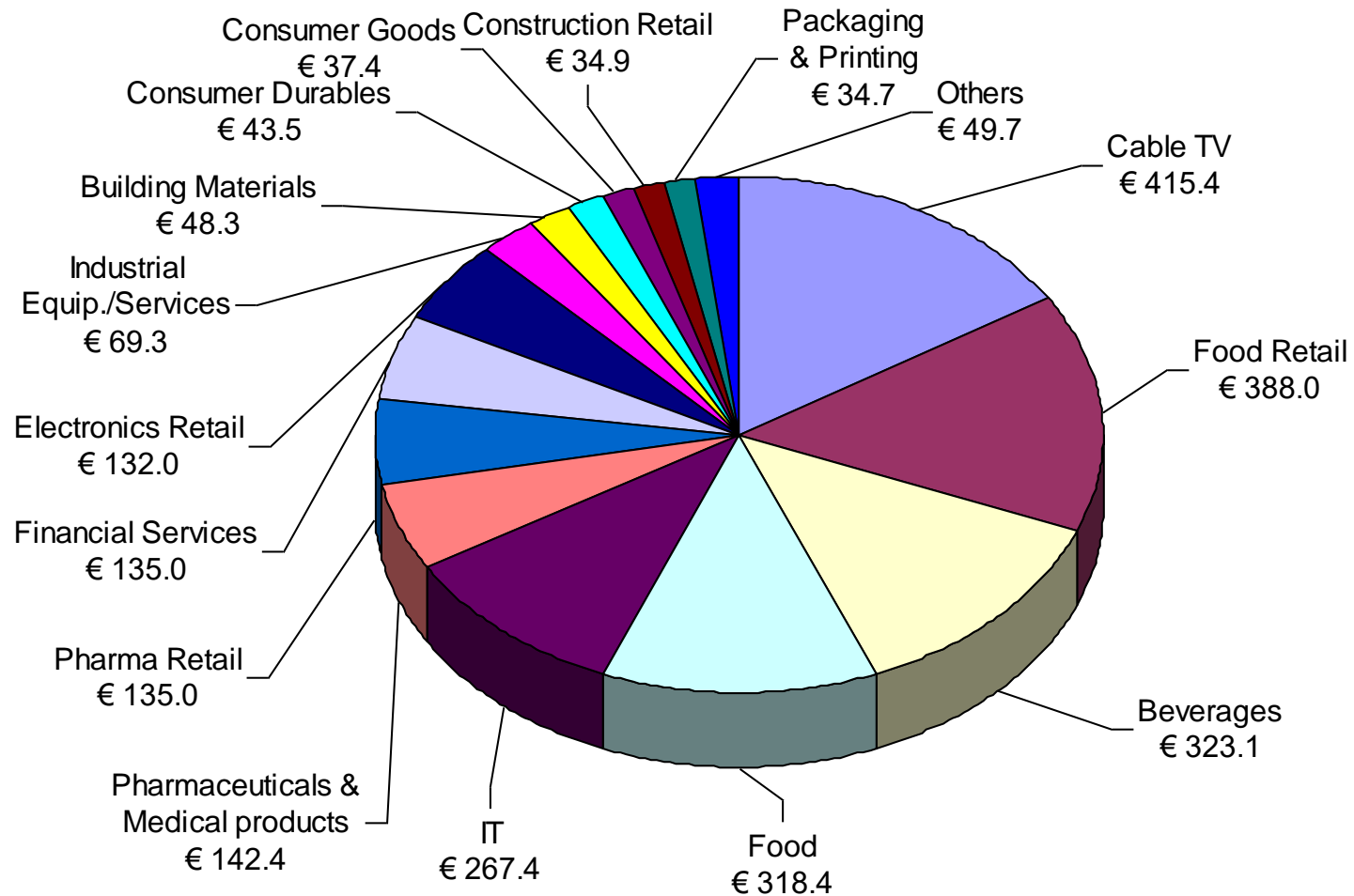
**Total Value: €2.57 billion**

Deals by Estimated Market Value  
(millions)



- 10-15 expected acquisitions for €250 million fund
- €1.9 billion potential pipeline (75% of total value) is almost ten times the size of SBF IV

# Pipeline By Sector



# Projected SBF IV Portfolio Allocation

- Cable - €75M (excluding co-investments)
- Food and beverage - €60M
- Pharmaceutical Retail - €75M (potential for co-investments)
- IT / Outsourcing - €15M
- Financial Services - €50M (potential for co-investments)
- Other currently active deals:
  - Biofuel (potential for co-investments)
  - Packaging
  - Waste management (potential for co-investments)
  - Retail (consumer electronics, food, etc.) (potential for co-investments)
  - Construction materials
- Co-investment opportunities could equal or exceed the fund capital of €250M

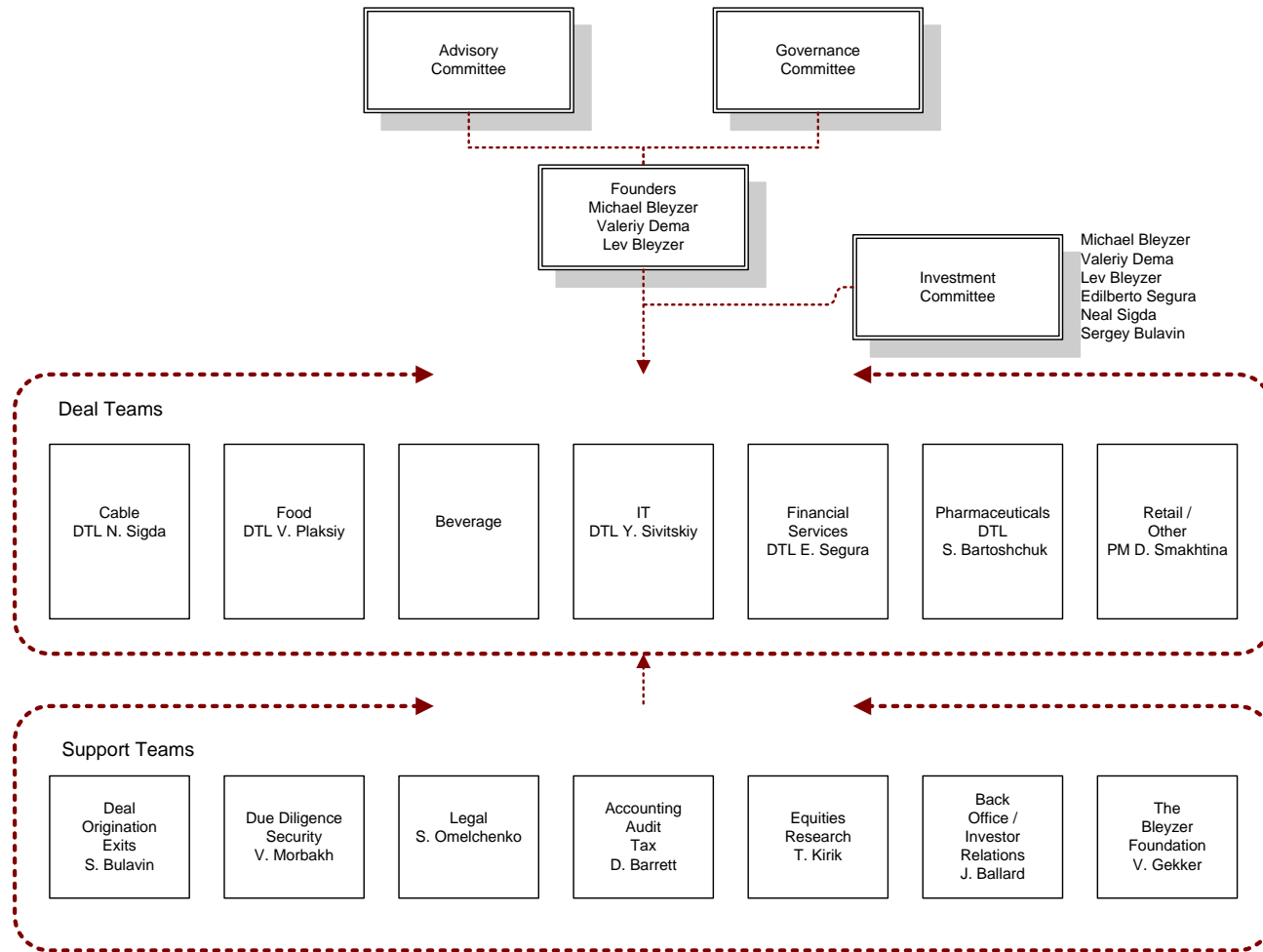
# Our Mission

- We **Manage** Capital in Transition Economy Countries to develop businesses and maximize profits
- We **Create** Opportunities for our Clients to Invest and Develop in the early stages of Market Economy
- We **Rely** on an optimal combination of the best world experience and national capabilities
- We **Assist** the best and the brightest people in the countries where we operate to realize their potential
- We **Facilitate** the successful completion of the transition to a market economy

# Our Values

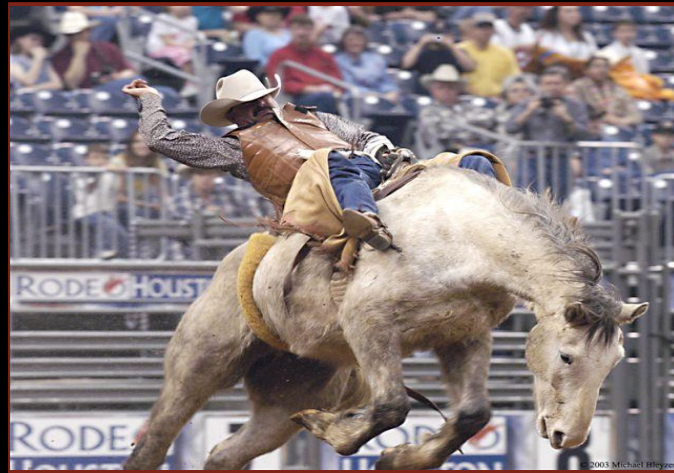
- **Professionalism** – we guarantee the professionalism and competency of our people
- **Quality** – we work to achieve 100% results
- **Reliability** – integrity, honesty and loyalty are the foundations of our business
- **Responsibility to our clients** – we guarantee the satisfaction of our clients
- **Adaptability** – change is our friend
- **Innovation** – we are pioneers in creating new paradigms, products and services
- **Long-term business** – we're in it for the long haul
- **Respect** – we respect our clients, partners and ourselves
- **People development** – people are our most valuable assets
- **Teamwork** – we are a collection of unique personalities bound together by a common goal

# SBF IV Organizational Structure and Corporate Governance





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## *Transaction Examples*

War stories



# So how does it feel to invest in PE in EM?





# Sevastopol Shipyard

- Largest Naval Yard in Ukraine with over 18,000 employees in late 80s; 15,000 by late 90s
- Local press, local authorities, management, employees react with a lot of concern about the future of SSY
- Company restructured into five profit centers from 39 companies, streamlining intra-company business flows
- Shift in focus from naval to commercial ship repair
- Multiple smaller enterprises created around SSY

Investment Summary	
Cost Basis	\$2.1M
Exited Value	\$7.5M
Investment Multiple	3.7x
Gross IRR at Exit	30% - 40%+

	1998	2006
Sales (\$, million)	\$12.1	\$40.0*
Employees	15,000	3,600
Commercial ships repaired	7	60
Port cargo ('000)	146	1,200**

\*Excludes port (sold in 2002)

\*\*Port sold off in 2002

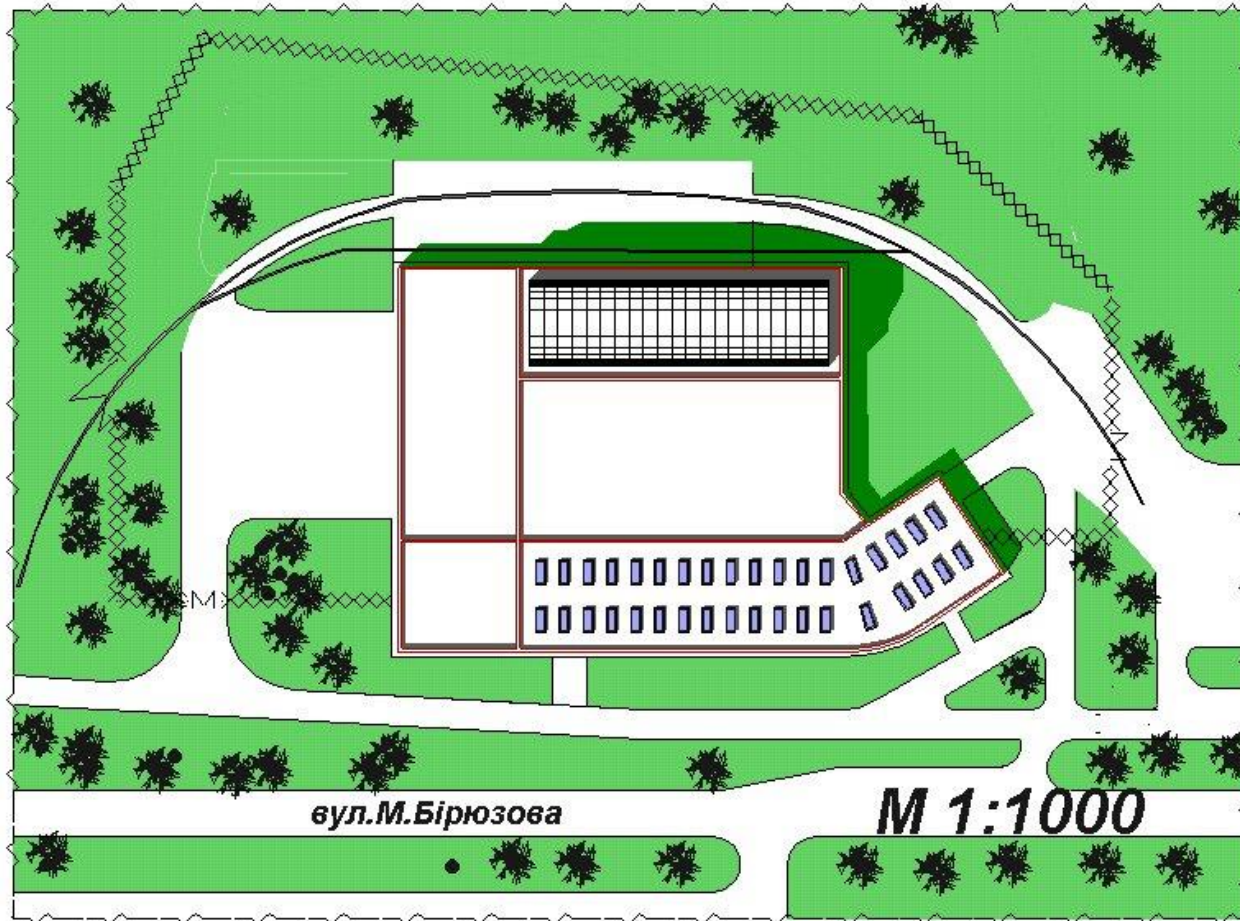
# Poltava Confectionery

- Initial investment of \$1.2 million by UGF III to buy control, followed by second round investment of \$4 million to build new factory
- Exports from 30-50% of production
- New production facility came online end-2002
- Swiss Experts brought in to assist
- New Leaf, worth up to \$20M per year with guaranteed 10% Profit margin

Investment Summary	
Cost Basis	\$5.2M
Estimated Value	\$52.5M
Investment Multiple	10.0x
Est. Gross IRR at Exit	30%

	1999	2006
Net Sales (\$ '000)	\$11.1	\$64.0
Production (tons)	9,160	48,810
Market Position	11 <sup>th</sup>	5 <sup>th</sup>
Largest Segment	Caramels	Cookies

# Poltava: Initial Plan



**Welcome to Poltava!**





# Poltava: New Cookie Line



# Poltava: New Easter Eggs Line



# Makiivka Pipe Rolling Plant

- Control acquired in 2000
- Leading pipe producer through 2001
- Attack from local oligarchs to control assets
- Assets spun off to prevent acquisition by hostiles
- Main company forced into bankruptcy (with spin off alive)
- Production shifts to grinding bodies
- Remarkable turnaround

Investment Summary	
Cost Basis	\$3.3M
Exit Value	\$3.0M
Investment Multiple	-
Est. Gross IRR at Exit	-

	1996	2006
Sales (\$ million)	\$3.2	\$16.0
% of Ukrainian Pipe Prod	95%	0%
Grinding Bodies, tons	0	43,000

# META

- Leading Cyrillic search engine (first in Ukraine)
- One of the 10 most popular Ukrainian sites
- 20% of all banner revenues go to META
- Essentially a start-up in 2001
- Company went from significant losses to an EBITDA margin of ~40% in 2006

Investment Summary	
Cost Basis	\$0.2M
Estimated Value	\$1.5M
Investment Multiple	6.3x
Est. Gross IRR at Exit	38%

	2001	2006
Sales (\$ '000)	\$10	\$800+



# Softline / Volia Software

- Leading Ukrainian systems developer
- Initial acquisition in 2000
- Annual sales up 20x since acquisition
- Over 700 employees today
- Successful outsourcing business in US
- Valuation up significantly
- Bids at \$25-30 million
- Real estate play alone could be \$20 million plus
- Outsourcing business can grow tenfold or more over the next 2-3 years

Investment Summary	
Cost Basis	\$2.3M
Estimated Value	\$14.3M
Investment Multiple	6.2x
Est. Gross IRR at Exit	30%

	2000	2006
Sales (\$ '000)	\$833	\$18,031
Employees	150	700+
Gov't Contracts (%)	80%	10-20%
Debt	\$0	\$4.7 million
Fastest Growing Segment	Gov't	Outsourcing

# Volia Cable

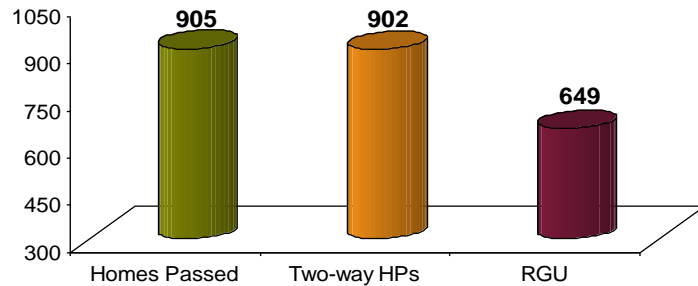
- Largest cable operator in Ukraine
  - Over 90% of the cable market in Kyiv
- Company created through consolidation of several separate buyouts and additional investment in network buildout
  - First two companies purchased in 1999
  - Merger of three companies into Volia Cable took place in 2001

Investment Summary	
Cost Basis	\$31.4M
Estimated Total Exit Value	\$366M
Investment Multiple	11.7x
Est. Gross IRR at Exit	42%

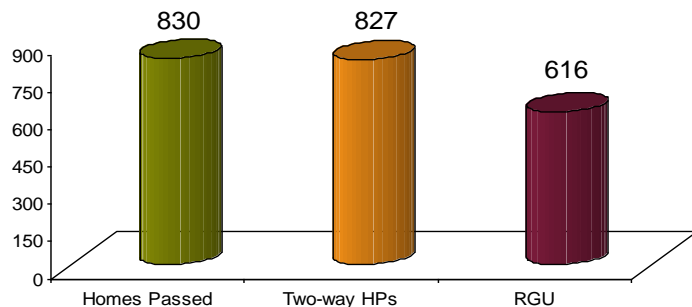
	1999	2006
Net Sales	\$3.2	\$31.8
Homes Passed	550,000	905,000
Subscribers	362,000	614,000
“Must Carry” Pricing	\$0.75	\$3.6 - \$4.4

# Volia Cable Subscribers (as of Feb 1, 2007)

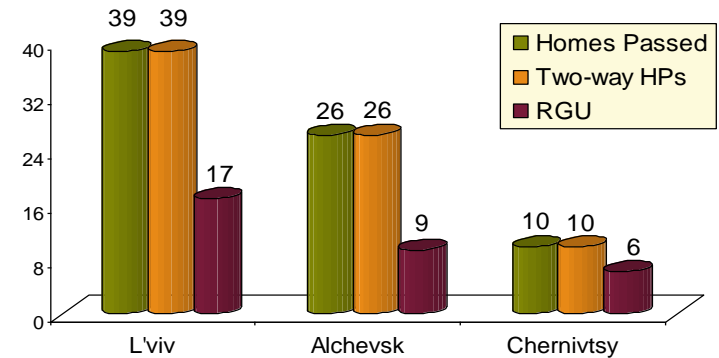
## Volia – Total ('000)



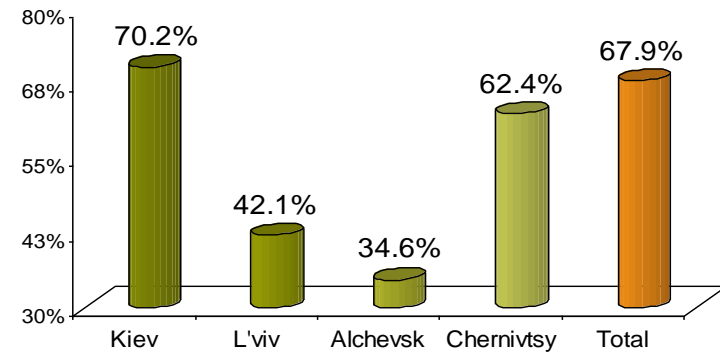
## Volia – Kyiv ('000)



## Volia – Subsidiaries ('000)

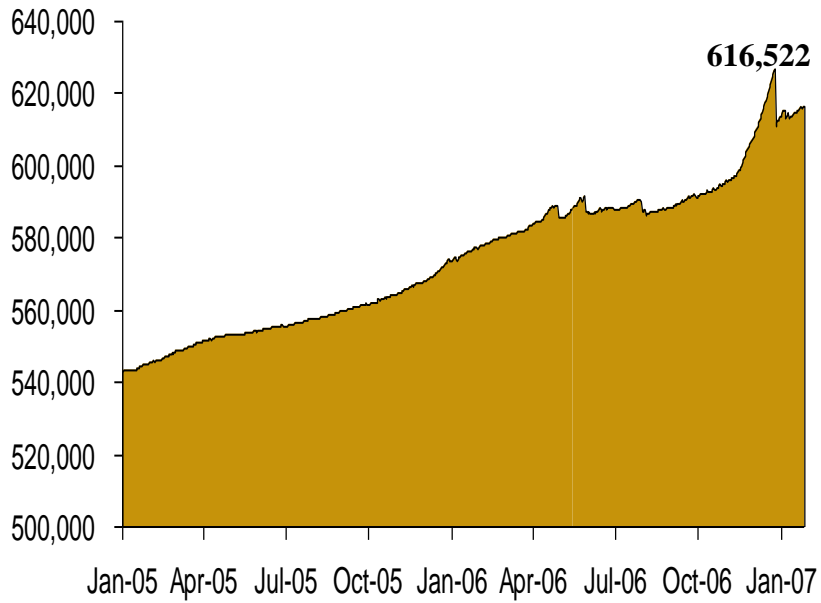


## Penetration Rates (%)

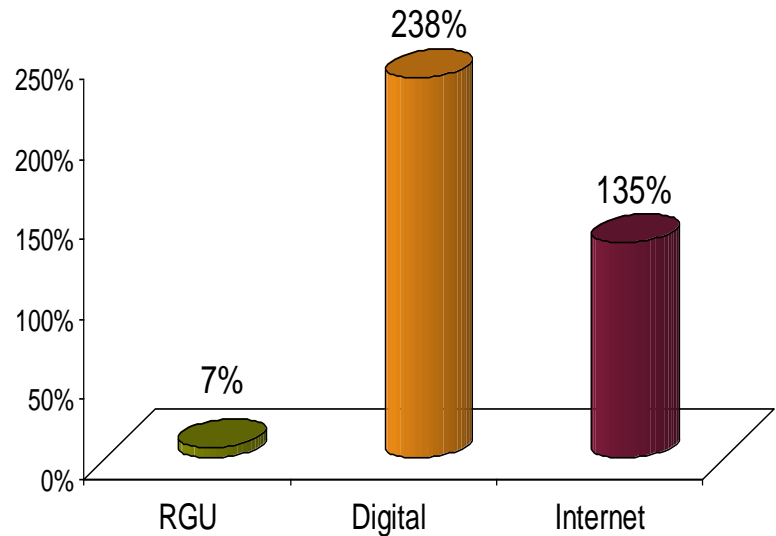


# Subscriber Growth

## RGU - Kyiv



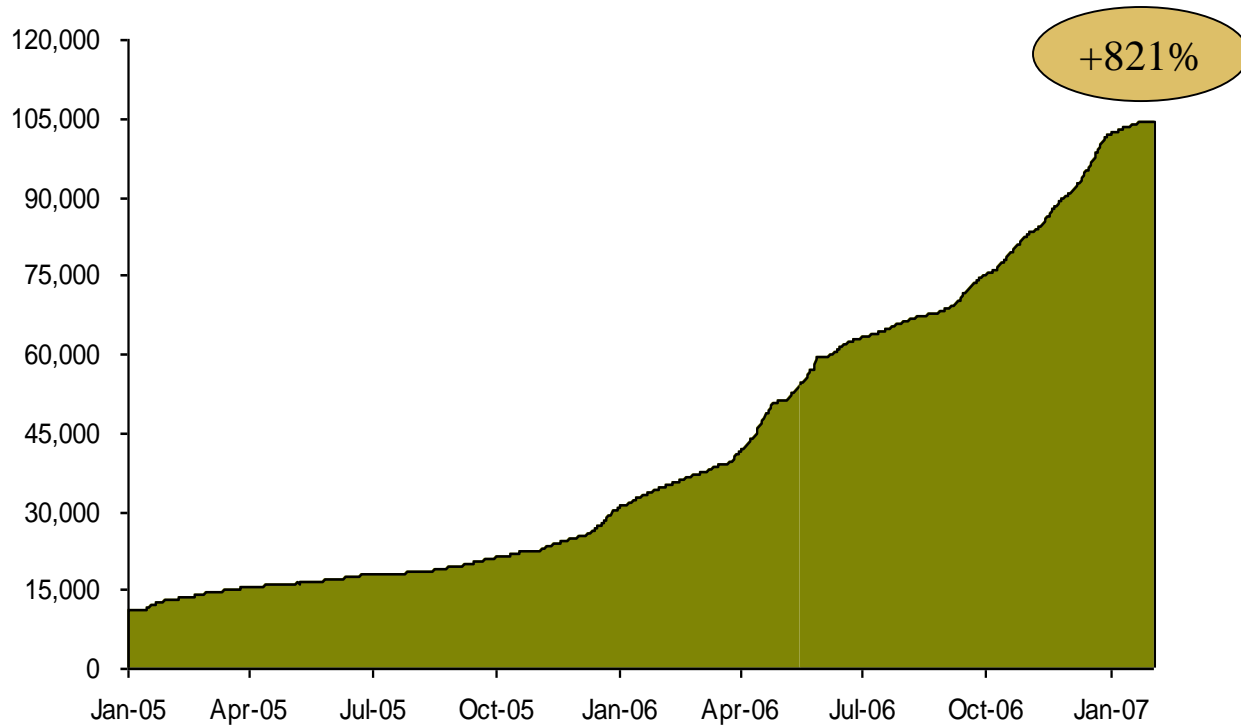
## 2006 Subscriber Growth Rates - Kyiv



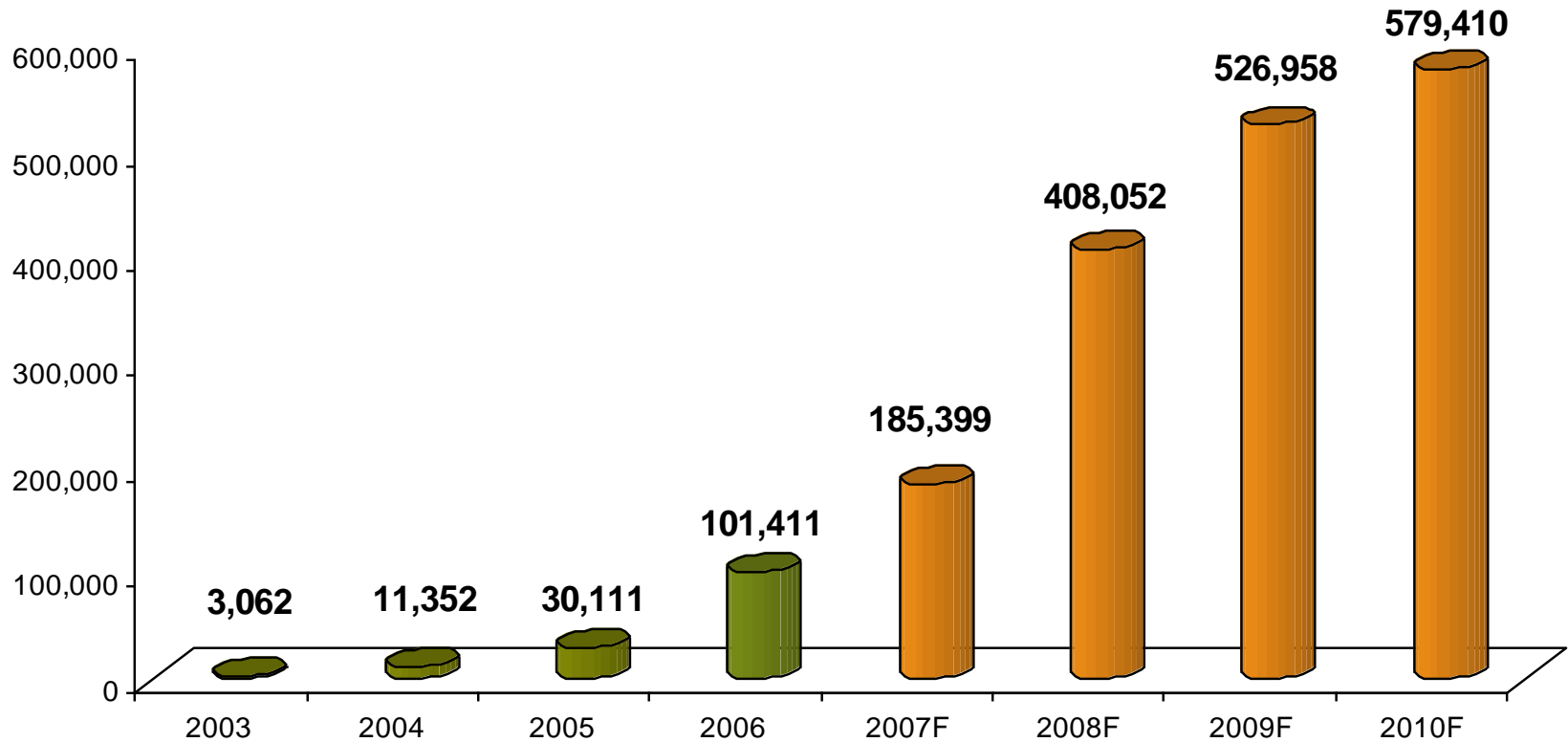
# Volia Cable Strategy



# Digital Subscribers Growth

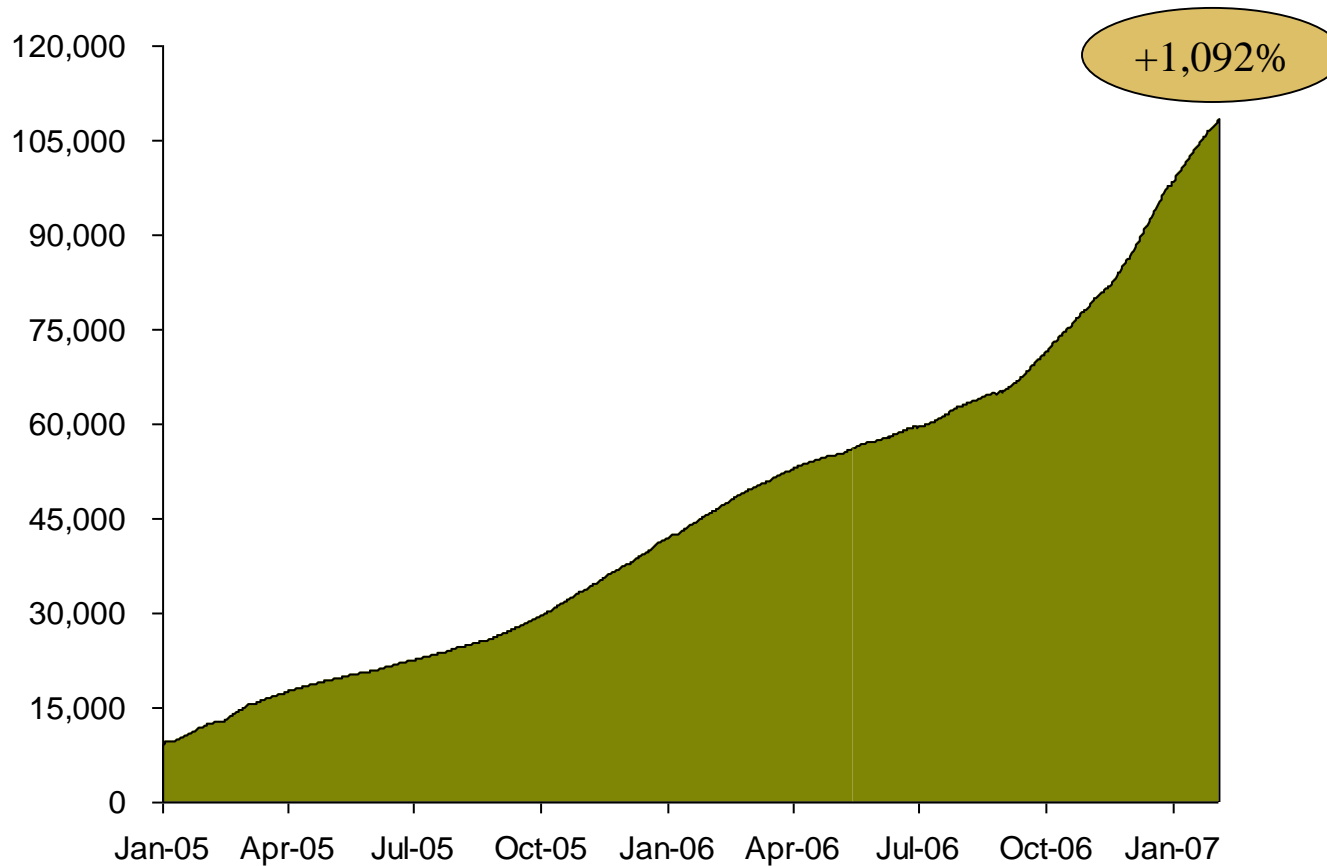


# Volia Digital TV – Projected Subscriber Growth



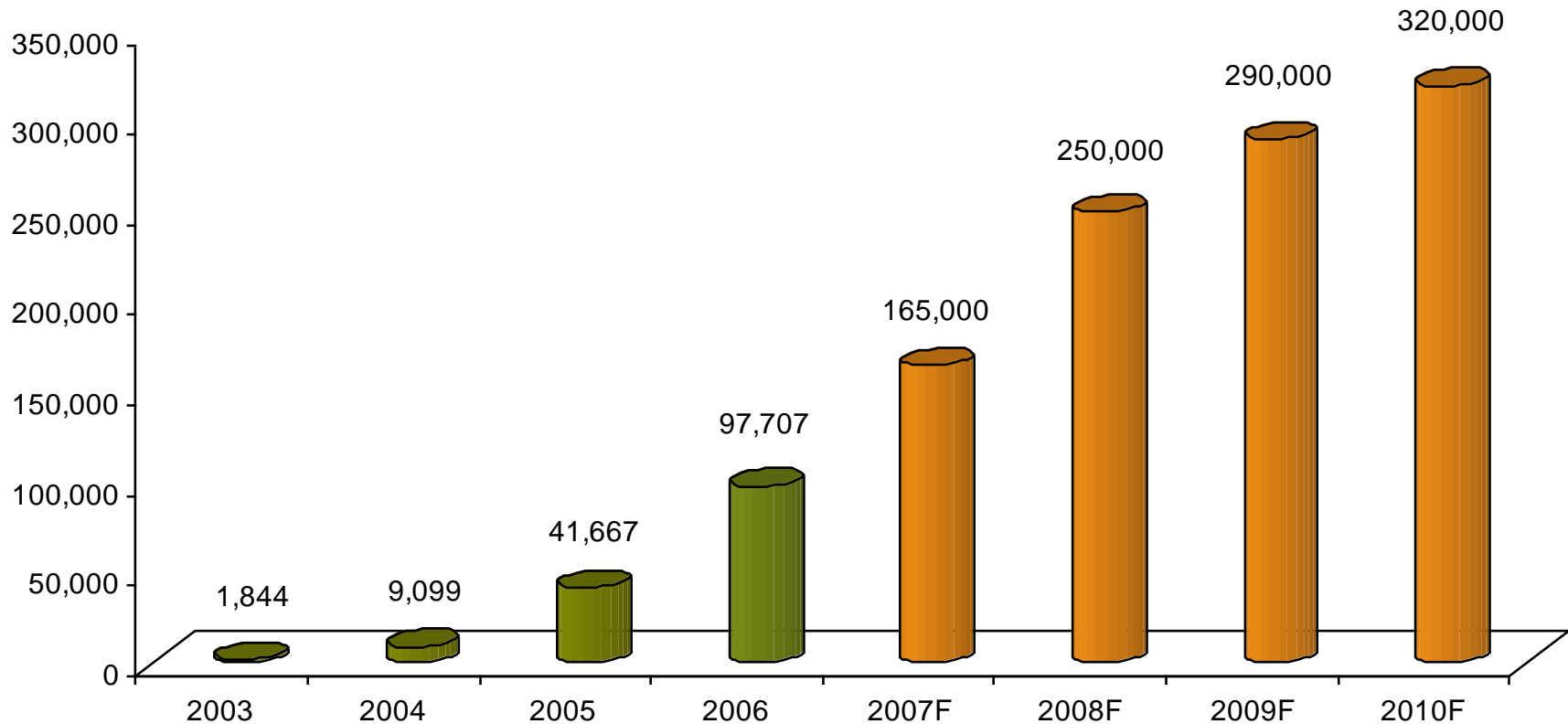
Expect to shift majority of subscribers to Digital TV packages in 2008

# High Speed Internet - Volia Broadband

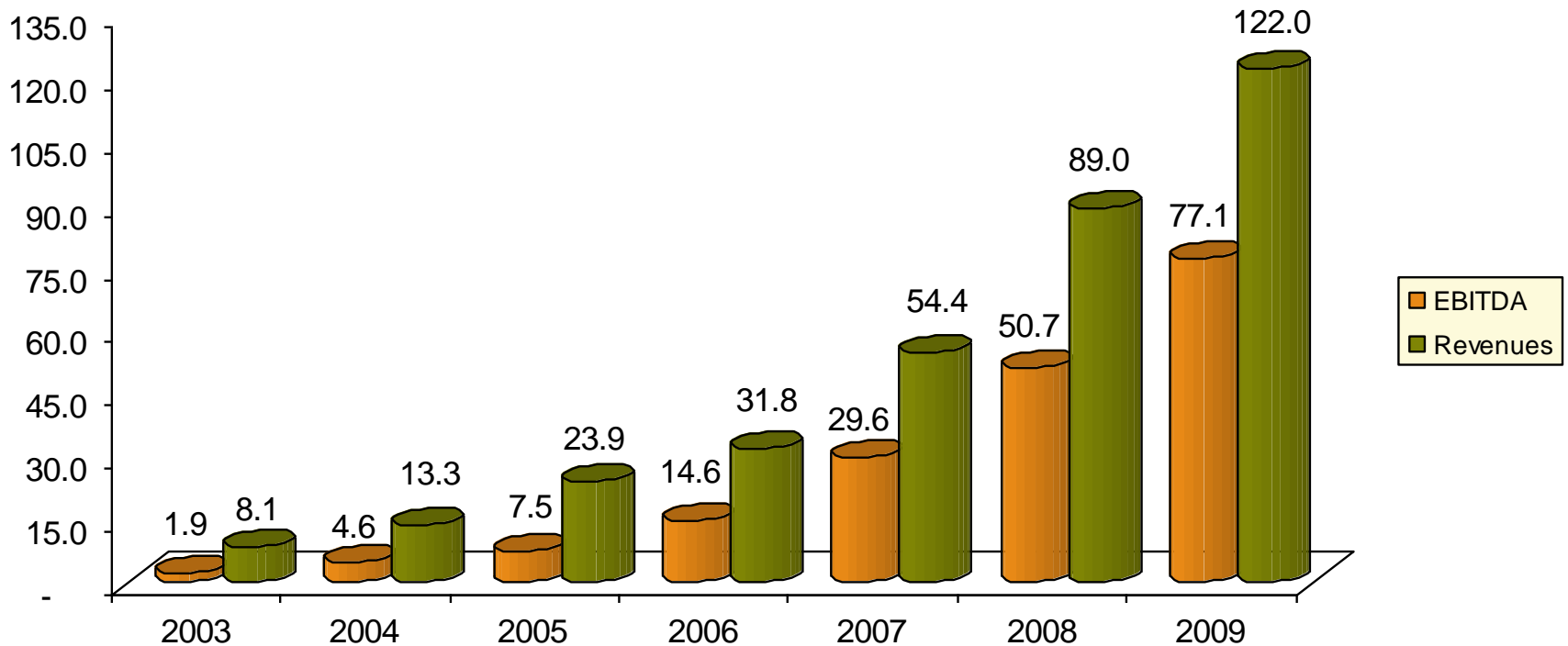




# Volia Broadband – Projected Subscriber Growth



# Financial Projections (\$, millions)

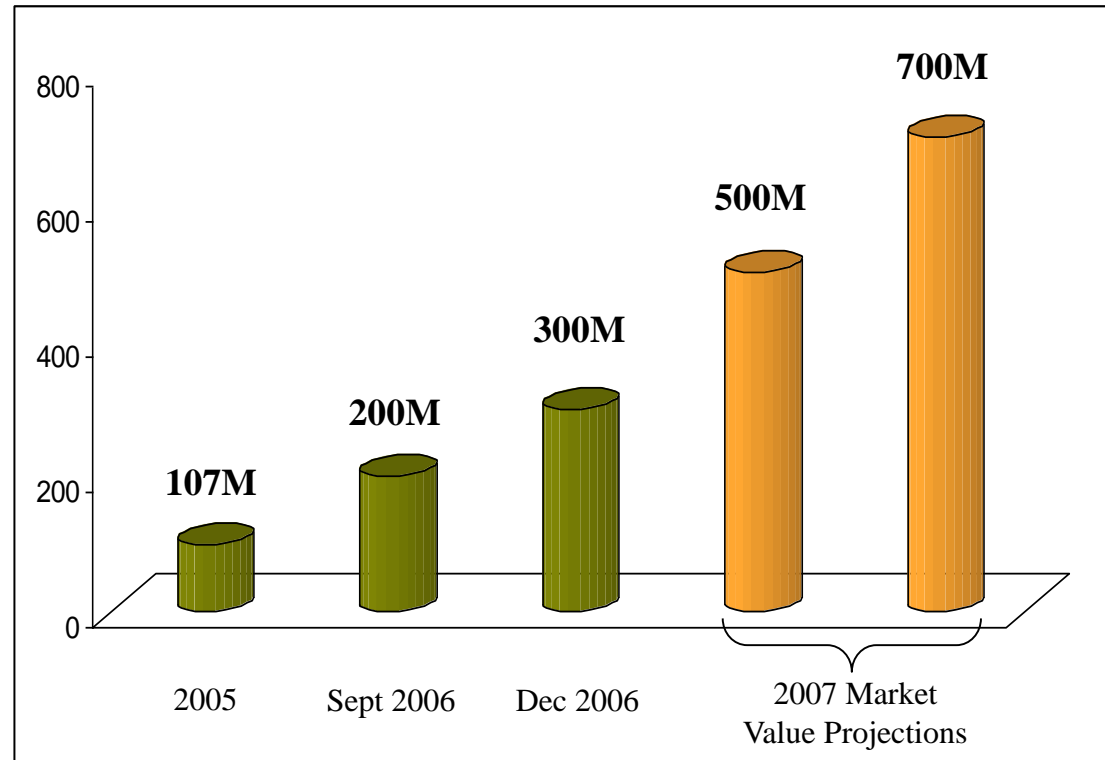


- Expect significant increases across the board

# Market Value Growth & Projections

- Volia Cable has shown phenomenal growth since the company was created in 2001
- Range of \$500-700 million value could be achieved either by IPO or by private sale in 2007
- Volia Cable plus Volia II = about \$2 billion value creation that started with \$30 million investment

Growth in Estimated Market Value



# Summary: EM PE Lessons

- Triple inefficiency play:
  - Market inefficiency
  - Business inefficiency
  - Economy inefficiency
- Must have:
  - The right team of local and western professionals
  - Improving business environment
  - Hybrid investment style

*In the next 10 years EM PE will provide a unique opportunity to achieve superior returns while making socially responsible investments that will make this world a safer place.*



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## Private Equity in Emerging Markets

*more information on [www.sigableyzer.com](http://www.sigableyzer.com)*

*Where Opportunities Emerge*