



SIGMABLEYZER



Private Equity in Emerging Markets
The most exciting opportunity of the XXI century

Michael Bleyzer

Where Opportunities Emerge

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

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

Mature Markets

Emerging Markets

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

Hybrid Investment Style SigmaBleyzer Business Model

- 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, but it is still not fully embraced by the PE industry

SigmaBleyzer Business Model

Essential Elements

- Unique investment approach which no other PE firm can match
- Emerging markets specialist: focus on Eastern Europe
- Long term commitment to the region – biculturalism as a prerequisite for business
- Taking controlling positions and getting actively involved in every facet of each portfolio company including strategy, marketing, finance, technology, operations, customer service, HR
- Encouraging close, productive relationships with the government, business associations, and other strategic investors
- Creating 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)

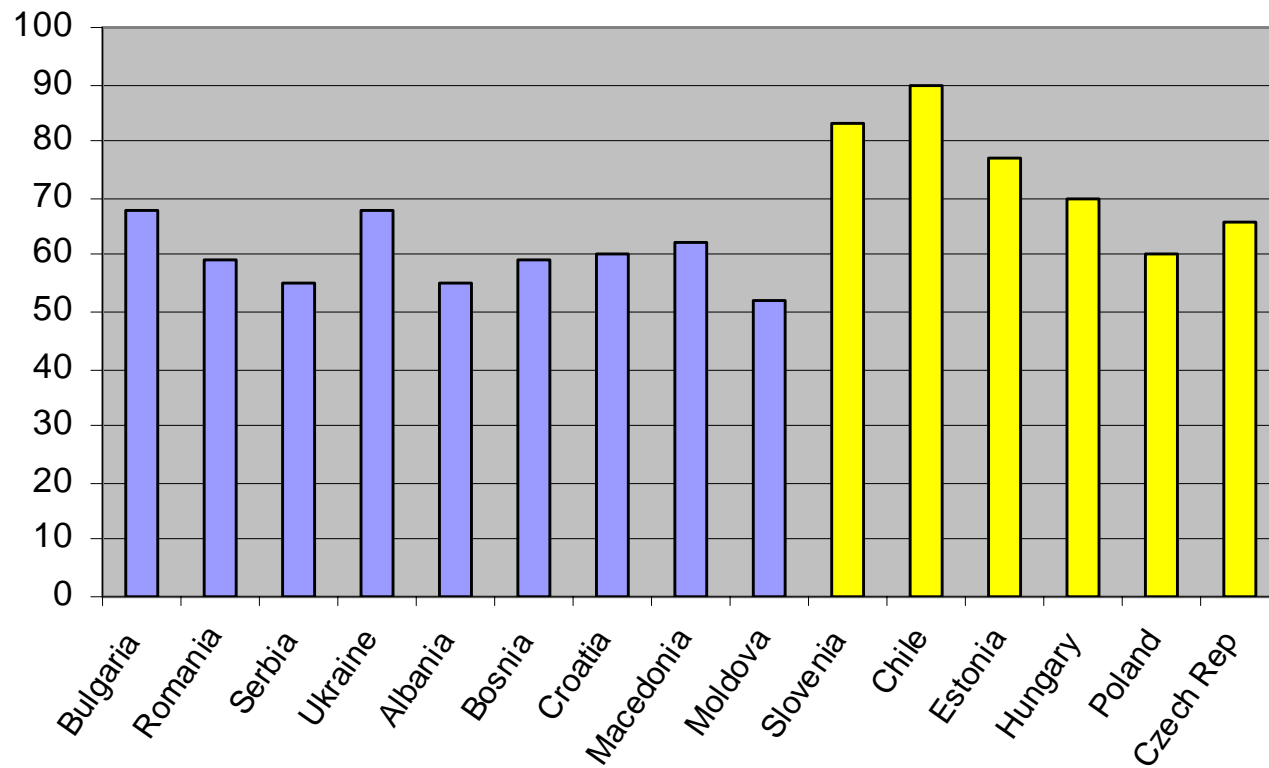
The Bleyzer Foundation Investment Drivers

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

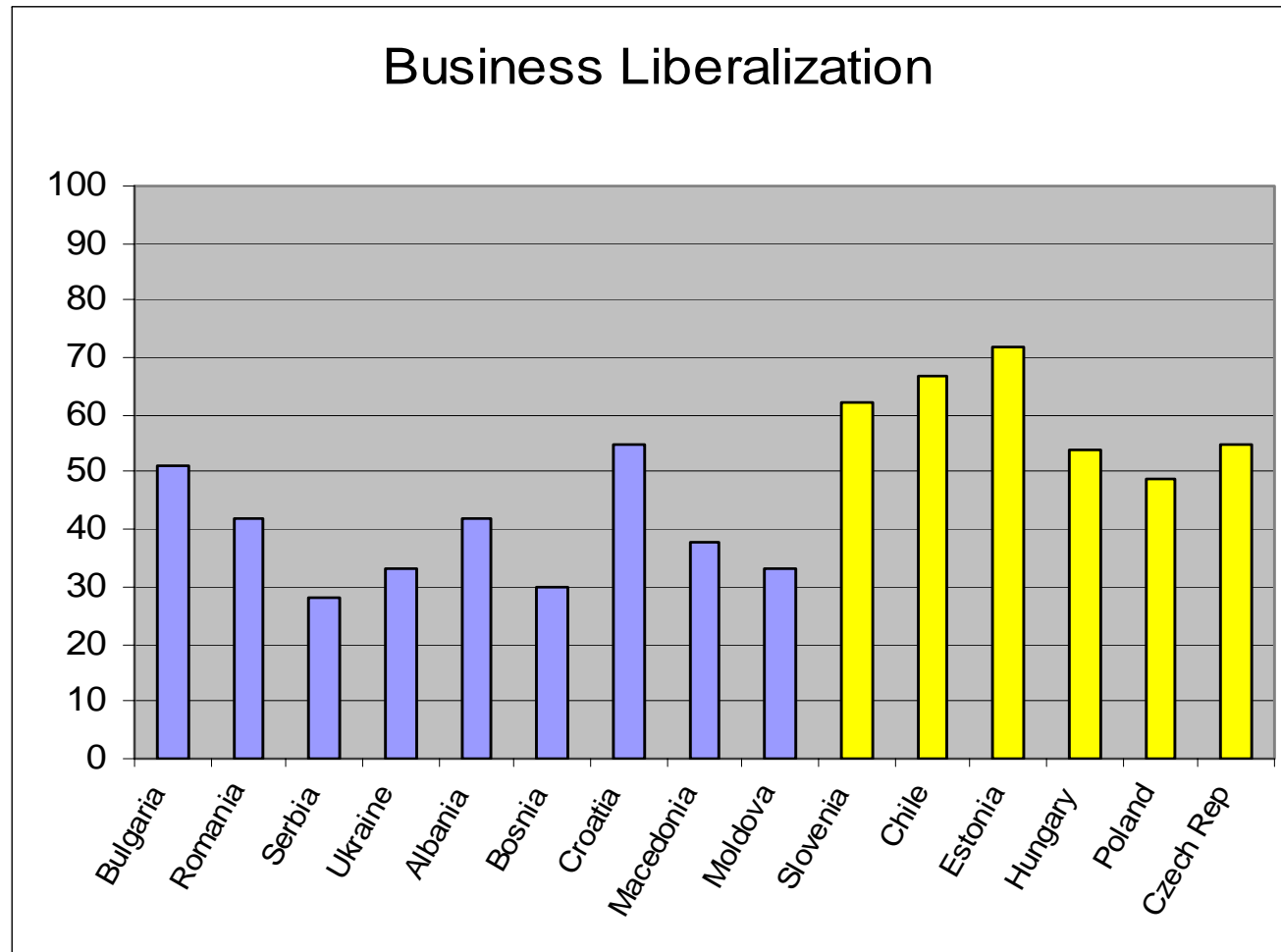
- The Bleyzer Foundation (TBF) operates as an NGO, is perceived as an IFI and represents a private capital point of view
- The TBF ratings for macroeconomic performance are based on many factors: fiscal policies, including control of the fiscal deficit, tax burden, control of expenditures and adequacy of tax collections and administration; monetary policies, including control of inflation, and credit policies; government debt policies, including debt management, debt service capacity and size of debt over GDP; and likely sustainability of macroeconomic policies. The indexes are calculated by the TBF economists
- The TBF ratings of other Investment Drivers are aggregated from a number of sources, including The Heritage Foundation; Euromoney's country risk ratings; IFC/The World Bank; EBRD; Economic Intelligence unit; Freedom House; International Country Risk Guide; Transparency International and others. They are adjusted and updated by TBF on the basis of interviews with officials of international organizations familiar with the business environment in these countries

Country Ratings

Macroeconomic Performance

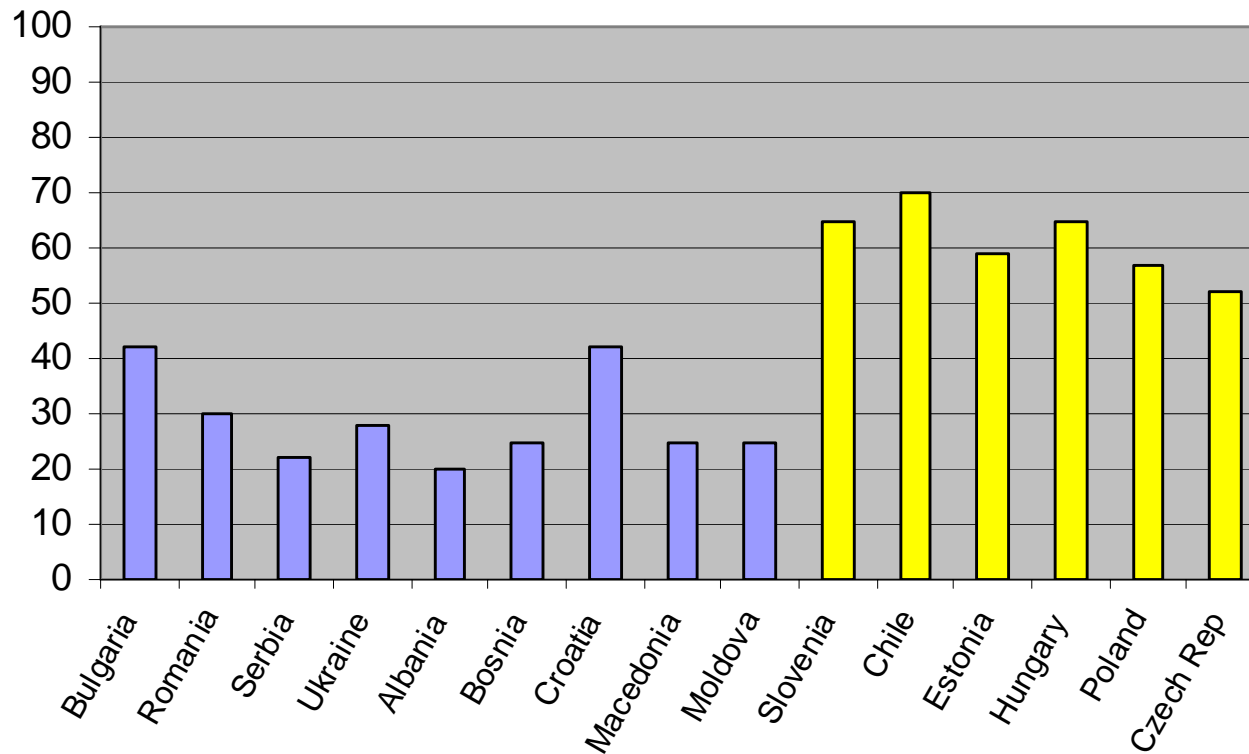


Country Ratings



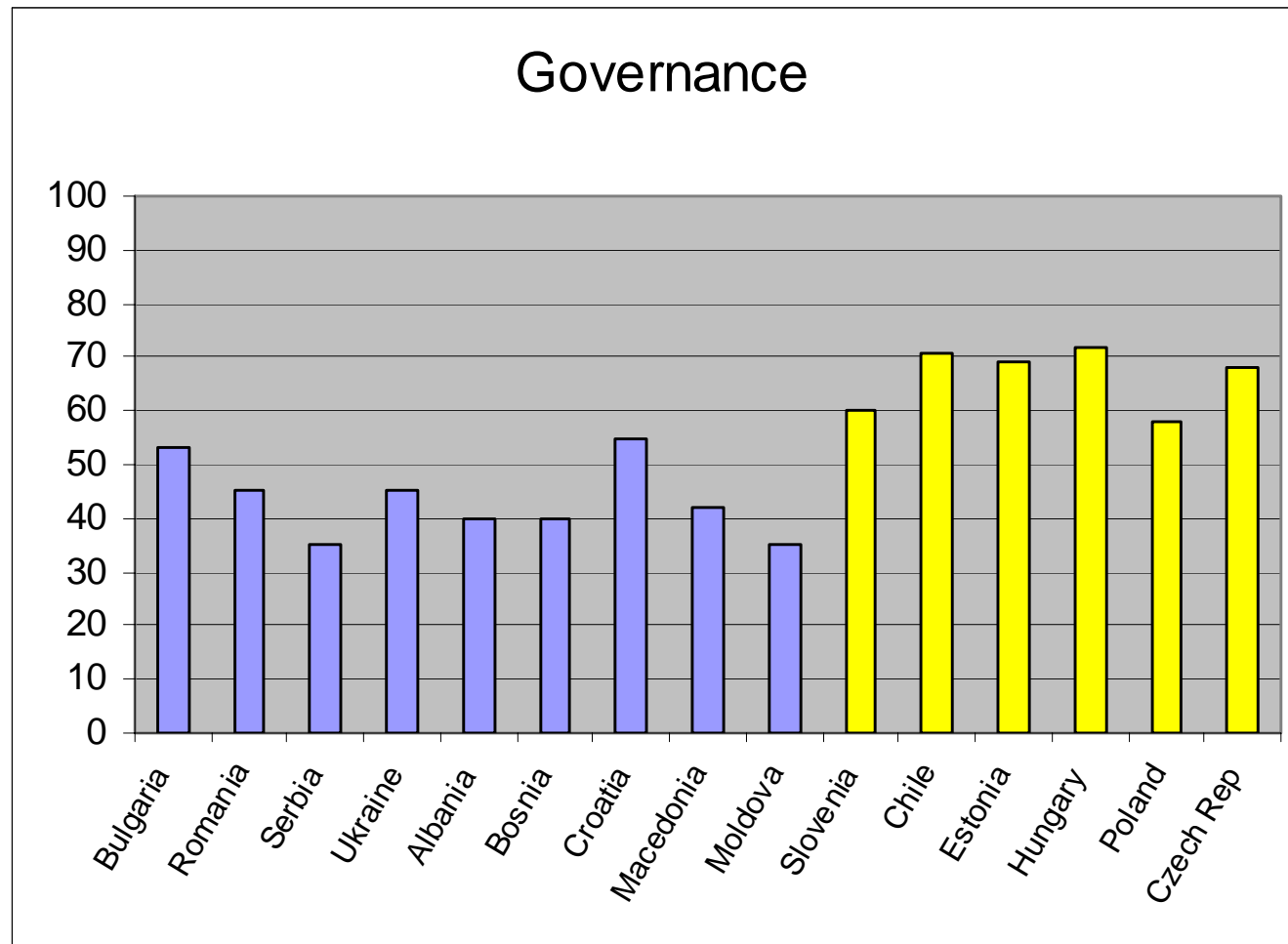
Country Ratings

Legal Environment



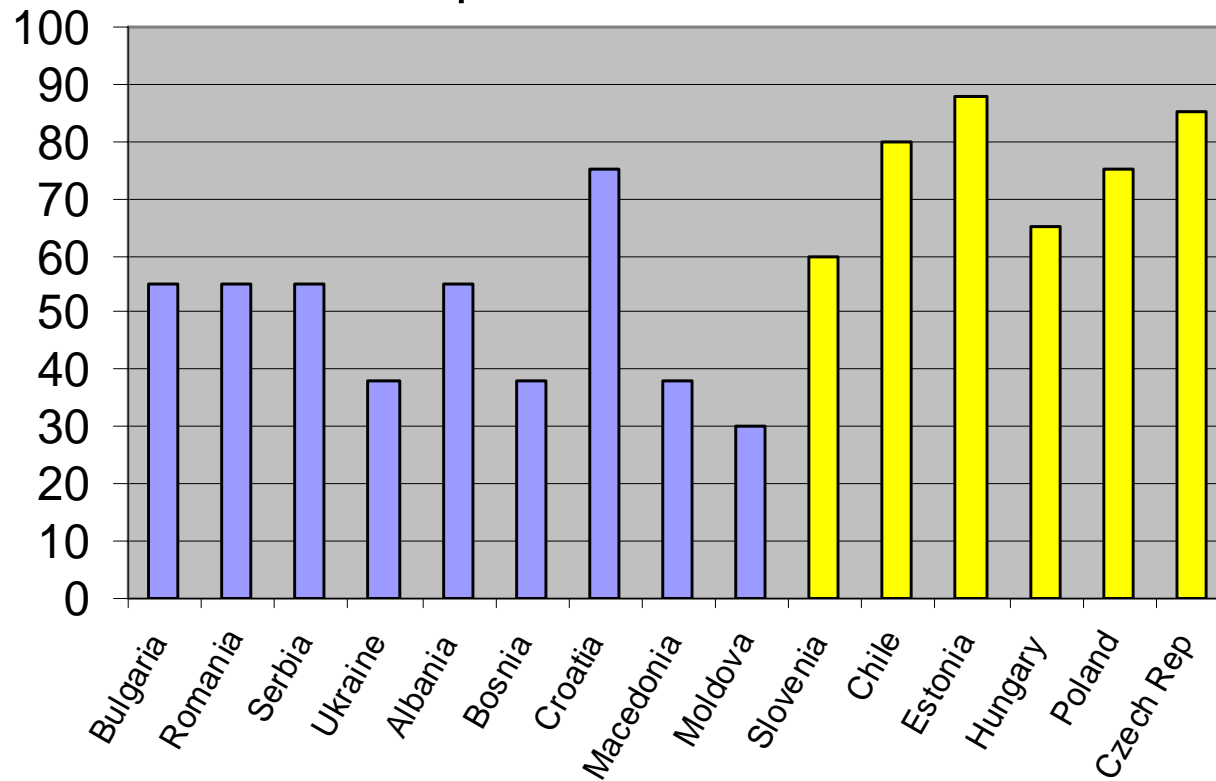
Country Ratings

Governance



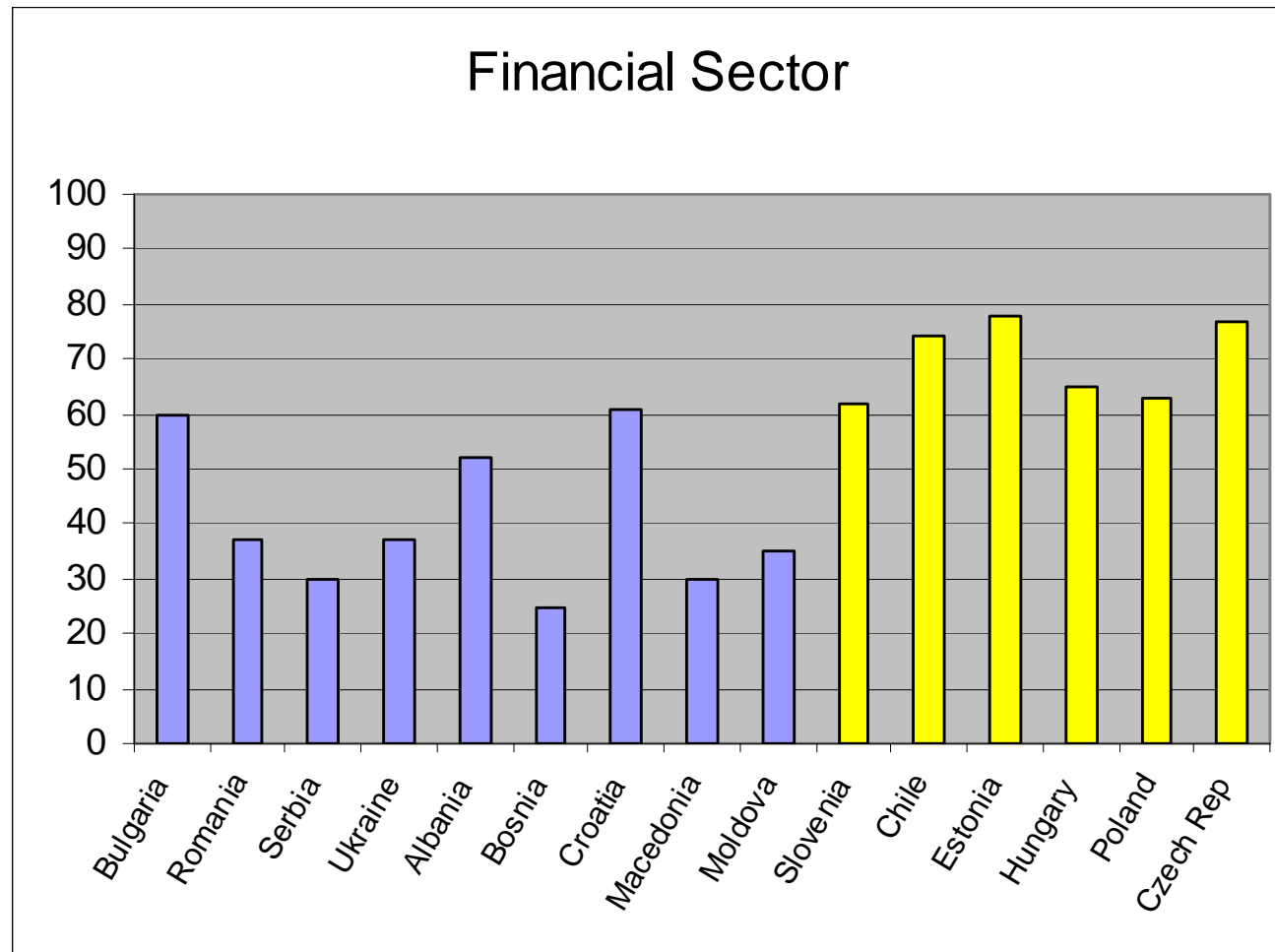
Country Ratings

Liberalization of International Trade and Capital Movements



Country Ratings

Financial Sector

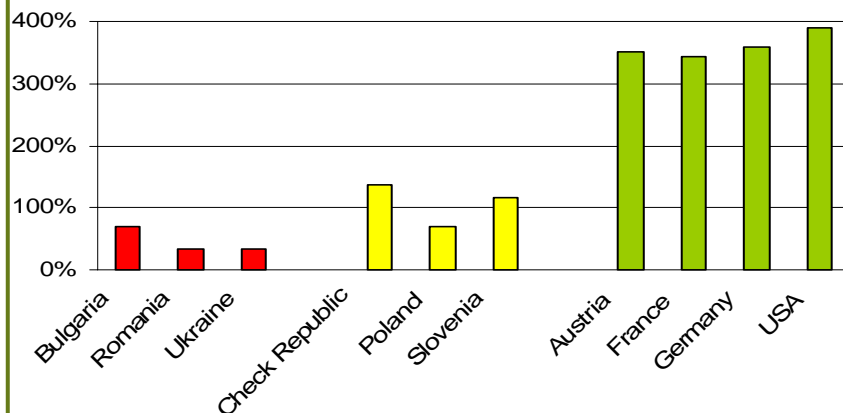


Financial Sector Analysis

Application for PE

- The financial sectors in Bulgaria, Romania and Ukraine are small relative to the size of the economies
- The non-bank financial systems are still in an early stage of development
- The financial sectors of the three countries, especially non-banking, could be favorably affected by the strong economic growth, increased demand for financing, access to the EU financial market, and enhancements in the legal and regulatory practices

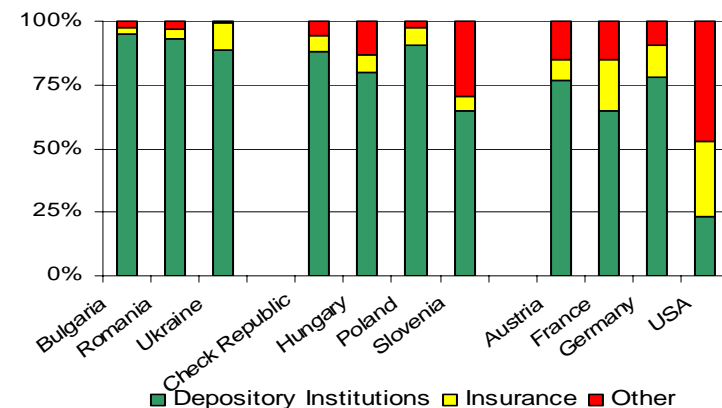
Financial Sector Assets as Percent of GDP



Source: IMF

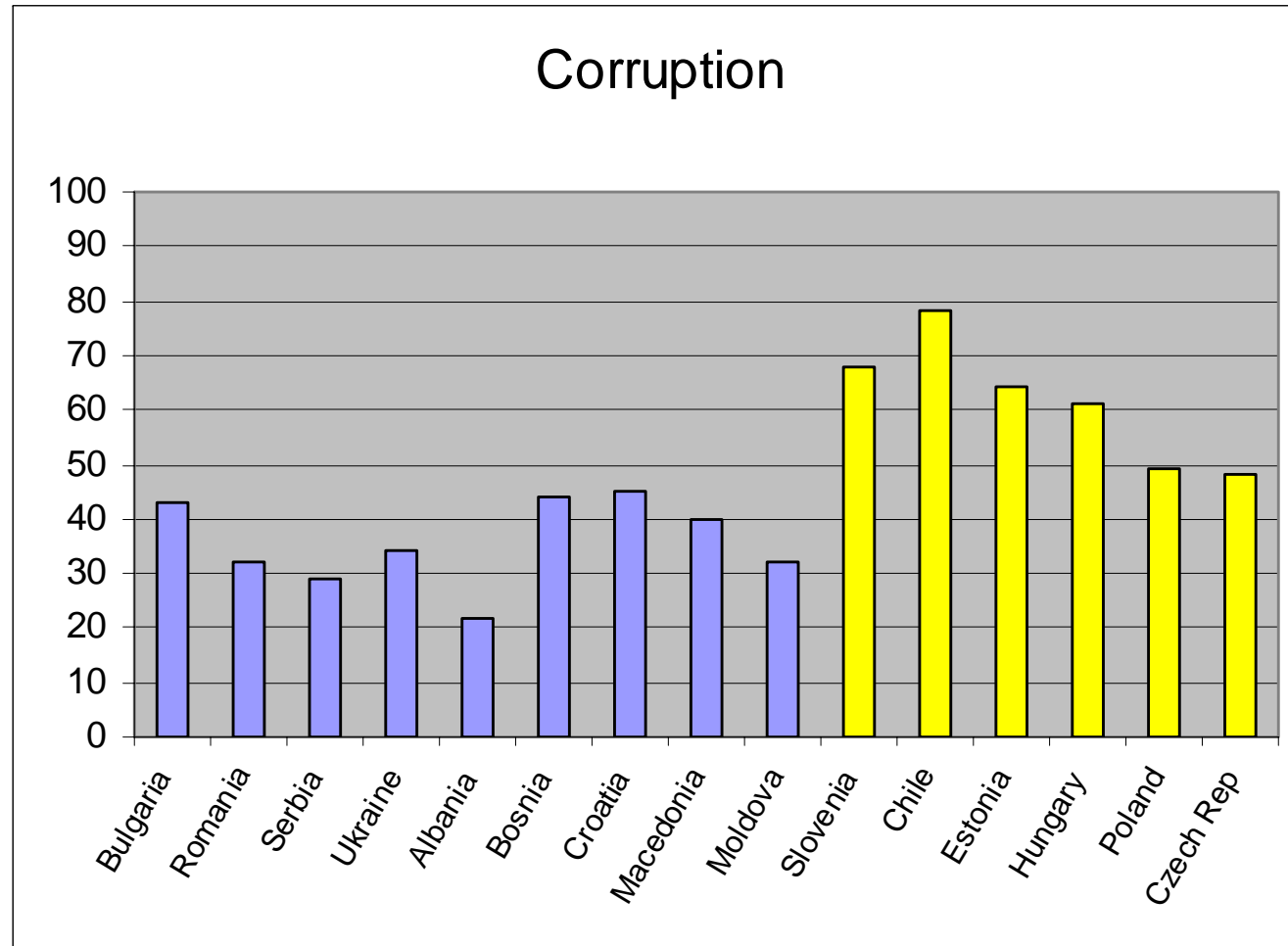
Data for Poland and Slovenia are for 1999; Czech Republic – 2000; Germany and Hungary – 2001; Austria and France – 2003; Bulgaria, Romania and Ukraine - 2004.

Composition of Financial Sector by Institution Type



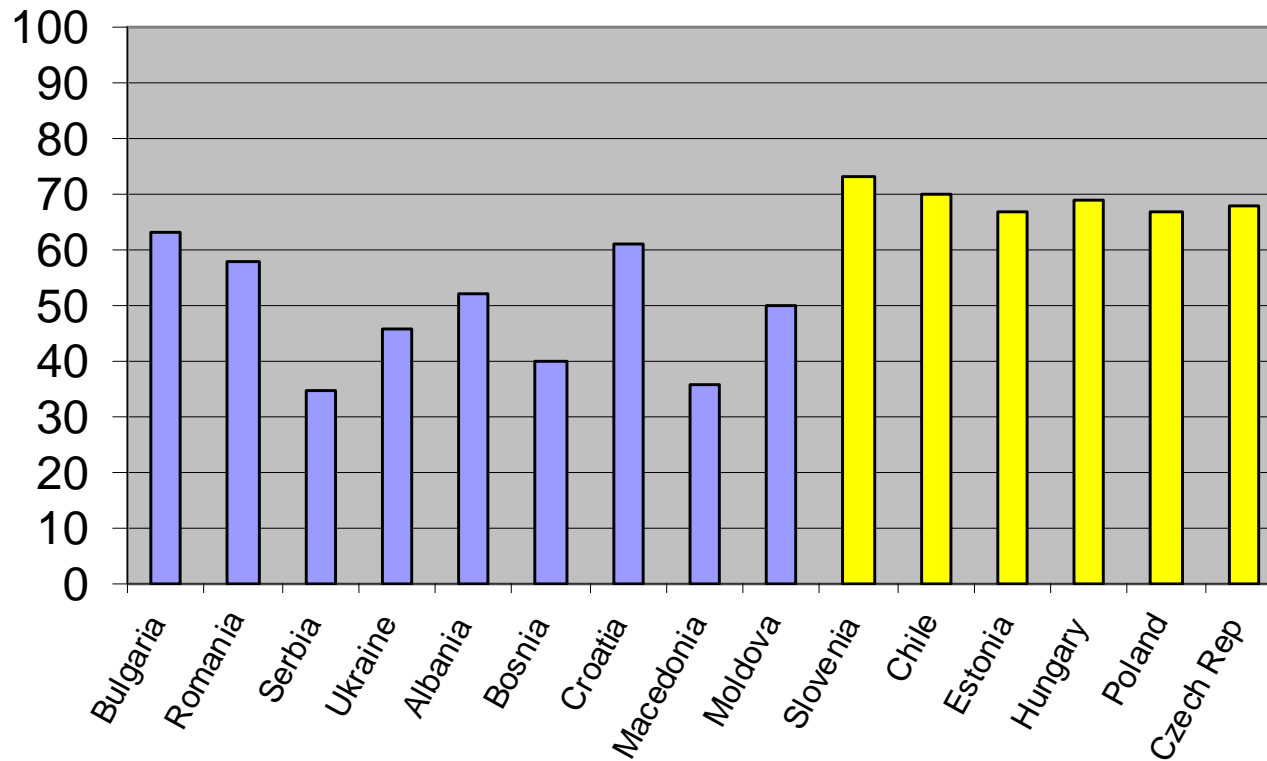
Country Ratings

Corruption



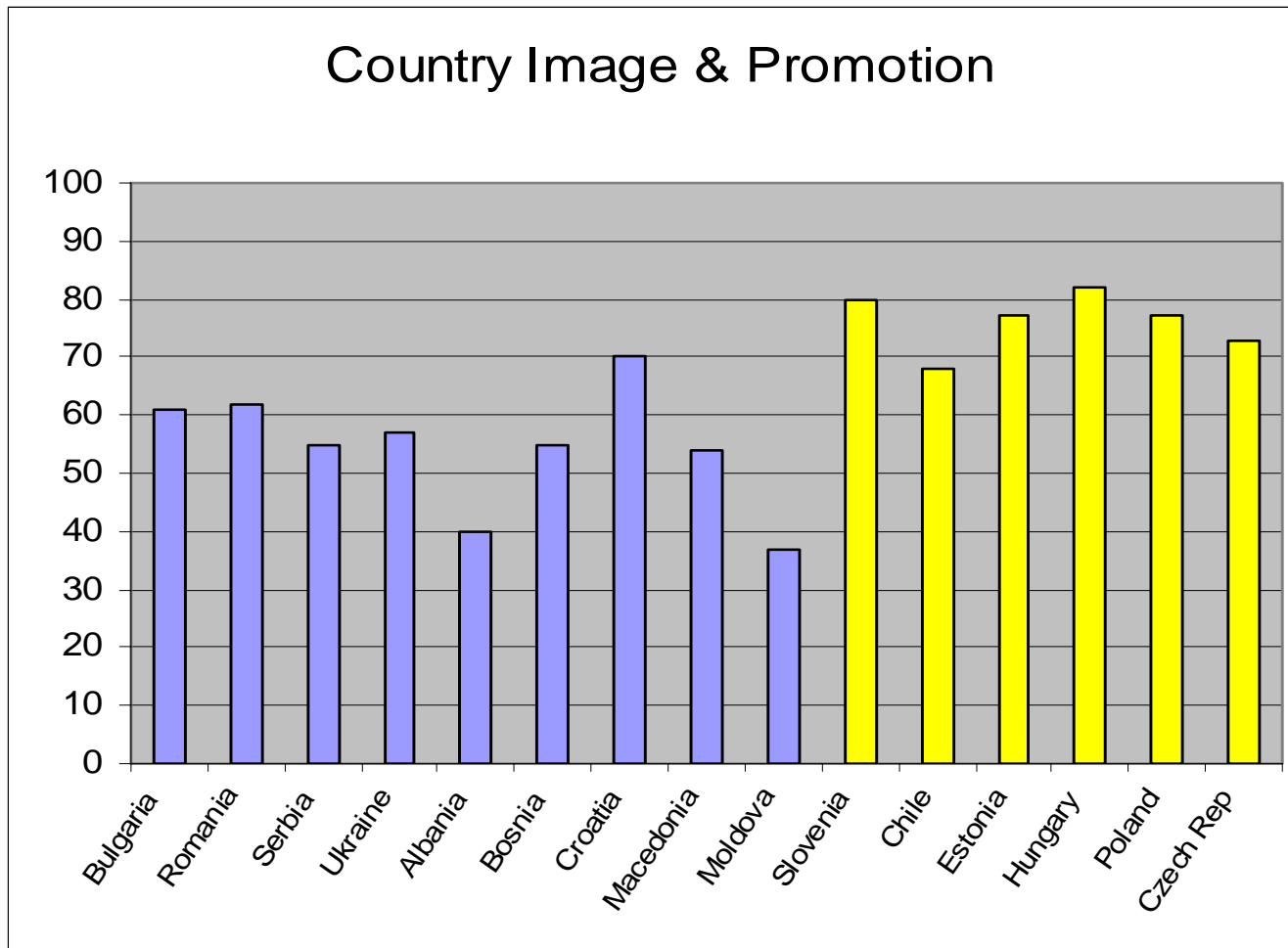
Country Ratings

Political Risk



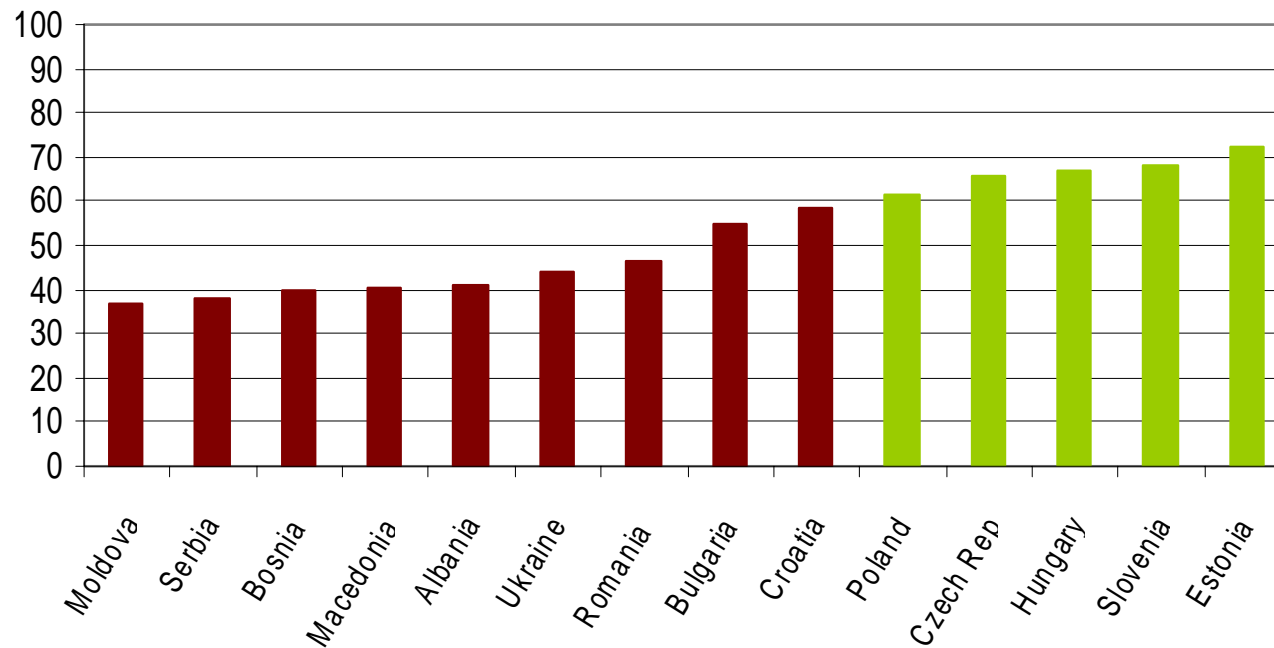
Country Ratings

Country Image & Promotion

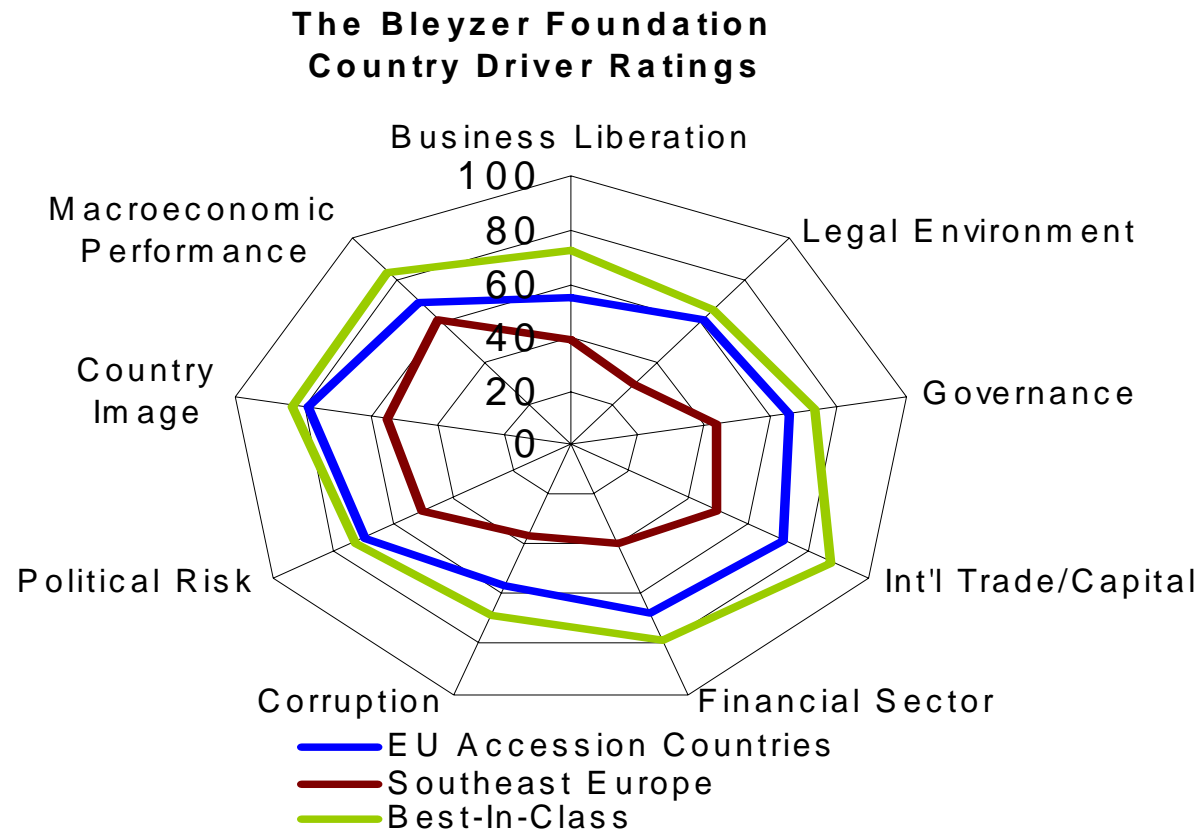


Overall Investment Drivers – Country Ratings

Aggregate Investment Attractiveness Ratings



TBF Investment Drivers Nonagon





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Private Equity Fund Management Essentials

Where Opportunities Emerge

Basics

- The world of GPs, LPs and Lawyers (plus accountants and auditors)
- Market opportunity and competition
- Risks and risk mitigation strategies
- VC, PE, buyouts, stages, use of capital – investment strategies
- Team, organizational structure
- Track Record / Benchmarks / Completed Transactions
- Deal Flow (Pipeline)
- Terms
- Fund Administration
- Fund Economics

Example

South Eastern Europe PE Opportunities

- SEE – one of the most attractive regions in Eastern Europe
 - More competitive than 1st wave accession countries in the next 3-5 years
 - Political risks are already reduced
 - Prolonged period of significant economic recovery and growth expected
 - Acquisition multiples of 1–4 times EBITDA are possible in the region
 - Exit multiples in 5 years should approach current Western European multiples of 6–10 times EBITDA
- Triple effect possible:
 - Low acquisition multiples
 - Easy to add value – Management 101
 - Ride the wave of macroeconomic expansion, which will aid both business expansion and exit multiples

Example

Risks

- Company-Specific Deterrents
 - Waste of resources and inefficiencies
 - Mentality of management and employees
 - Lack of transparent information, inadequate accounting
- Broken supply chains
- Illiquid markets – difficult exits
- Country image problems
- Vested Interests
- Corruption, government bureaucracy

Example

Competition

- Western funds:
 - Country Funds / Regional Funds
 - Supraregional funds (invest in all countries of CEE) / CEE FoFs
 - Funds focusing on SMEs and regional development (International Financial Institutions – EBRD, IFC, others)
- Strategic Industry Players – Multinational Corporations
- Local players
 - Management
 - “Oligarchs”
 - “Russians”
 - Holdings / FIGs

Example

Different Investment Strategies

■ Western Funds

- Focus on short-term plays
- Privatization plays
- Little post-investment activity
- Small local staff
- Short-term debt instruments

■ Strategic Industry Players

- Long-term view
- Local market focused
- Export focused
- Labor cost / logistics

■ Local Players

- Long-term “buy-and-milk”
- Buy what’s available
- Build power base
- “Managed” Privatization
- FIG – favorite structure
- Self-sufficient: vertical and horizontal integration
- Poor accounting
- Often destroy value
- Political alliances

Example

Our Team and Organizational Structure

- Need for intuitive understanding of the culture and markets:
 - Hire local professionals
 - Western expatriates must have intimate understanding of the country and region
- A lot of “manual labor”
 - Multitude of local skills required
 - Sourcing and structuring deals
 - Due diligence – critical local skills required
 - Addressing specific local business problems
 - Local compliance and reporting
 - Local PR and business promotion

Example

Our Investment Strategy

- Focus on Buyouts
- Controlling positions are essential
 - The legal environment is not sufficient to protect minority shareholder rights
 - Under the right deal structure, where control is maintained, smaller stakes are possible
 - Mandate needed to change companies, add value, and avoid potential management abuses
- Leave room for local minority co-owners
- Structure investments to provide partial exits for sellers and recapitalization of the company

Example

Our Post Investment Strategy

- Proactive management – active value creation
 - Engagement on boards of directors
 - Enhancement and close oversight of management
 - Appointment of new management when necessary
 - Promotion of portfolio companies' interests abroad and with local and central governments in the countries of operation
- Combine local know-how with Western expertise
- Assist in overall strategic development
- Protect your rights
- Leverage strong government and industry contacts

Example

Our Exit Strategy

- Strategic Investors – multinational companies from Western Europe, USA, Asia and Latin America
- Russian and former Soviet block businesses, which are expanding in the region
- Local business people
- Management buyouts
- Secondary buyouts
- IPO's in the West or in the region
- Additional factors aiding exits in the next 5 years:
 - Local pension fund industry is developing fast
 - Local mutual fund industry is being born
 - Leveraged buyouts will be coming

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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more information on www.sigmableyzer.com

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