

Central and Eastern Europe Success Stories

Special Paper

Special Paper



Edited by the EVCA Central and
Eastern Europe Task Force

October 2004



European Private Equity &
Venture Capital
Association



European Investment Fund

Type of organisation

Multilateral Development Bank

Rating (long-term)

Standard & Poor's	AAA
Moody's	Aaa
Fitch	AAA

Weighting

20% (BIS weighting); 0% (proposed BIS-II weighting)

Background

The European Investment Fund (EIF) was created in 1994 as the European Union's specialised vehicle to support innovation and Small and Medium-sized Enterprises (SMEs) across the EU and Central and Eastern Europe (CEE). Located in Luxembourg, EIF has an authorised capital of EUR 2000m subscribed by the European Investment Bank (59.45%), the European Community (30%) and some 32 public and private banks and financial institutions (10.55%). Capital and reserves at 31 December 2003 was EUR 560m.

Corporate overview

EIF, within the EIB Group, is specialised in two main and complementary instruments – venture capital investments and SME portfolio guarantees – which it provides using either its own funds or those available within the framework of mandates entrusted to it by the EIB, the European Commission, and since recently, the German Federal Ministry of Economics and Labour. EIF also actively provides strategic and technical advice to public and private counterparts within a newly formed Advisory Services Division. EIF operates in 31 countries.

CEE: Guarantee activity

EIF is active in CEE particularly under the framework of the European Commission's "Multiannual Programme for Enterprise", whereby it provides guarantees or counter-guarantees covering up to 50% of the credit risk in relation to a portfolio of SME loans or leases. As of 31 July 2004, EIF's guarantee portfolio in CEE totals EUR 130m in eight agreements signed with financial institutions in Bulgaria, The Czech Republic, Estonia, Latvia, Lithuania, Romania and Slovenia.

CEE: Investment activity

Acting as a fund-of-funds, EIF participates in venture capital and private equity funds that invest primarily in early to mid-stage SMEs and also in funding for business expansion and innovation. EIF acts as a commercial minded investor seeking a risk commensurate return on its investments. EIF invests both in country-specific and in multi-country funds, contributing to the development of a balanced private equity market. Based on its broad pan-European experience, EIF promotes EU best industry practice for terms and conditions, fund governance and structure. As of 31 July 2004, EIF has committed in CEE a total of EUR 115m in eight venture capital funds investing in SMEs in Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

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About EVCA

The European Private Equity and Venture Capital Association (EVCA), was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world.

With over 925 members in Europe, EVCA's role includes representing the interests of the industry to regulators and standard setters, developing professional standards, providing industry research, professional development and forums facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

EVCA's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

The EVCA Central and Eastern Europe Task Force

EVCA created the Central and Eastern Europe Task Force in 2003 as a platform from which to launch initiatives for the benefit of EVCA members in Central and Eastern Europe (CEE). These initiatives are specifically aimed at the development and promotion of private equity and venture capital in the region. The publication of this paper, *Central and Eastern Europe Success Stories*, is just one of the key achievements of the Task Force to date. In June 2004 it also organised a successful panel discussion, "Central and Eastern European EU Accession: Expanding the Horizon of European Private Equity" at the EVCA Annual Symposium in Berlin. Over the past year the Task Force secured the inclusion of Central and Eastern European countries in EVCA's May 2004 report, *Benchmarking European Tax and Legal Environments*, and organised EVCA's successful Central and Eastern Europe Policy Meeting in Brussels in April 2003. As part of its ongoing activities, the Task Force is making efforts to improve Central and Eastern European statistics in the EVCA Annual European Activity Survey in close collaboration with the region's national associations, as well as working to increase coverage of Central and Eastern European topics in EVCA conference programmes and publications.

Disclaimer

The information contained within this report has been produced with reference to the contributions of the EVCA Central and Eastern Europe Task Force, private interviews and other sources of information. EVCA has taken suitable steps to ensure the reliability of the information presented; however, it cannot guarantee the ultimate accuracy of the information collected. Therefore neither EVCA nor the individual members of the EVCA Central and Eastern Europe Task Force can accept responsibility for any decision made or action taken, based upon this report or the information provided herein.

Foreword

EVCA is publishing this collection of success stories to raise awareness of the developing private equity industry in Central and Eastern Europe. Institutional investors that provide capital to private equity funds will be impressed with the number and diversity of successful investments presented here, and are encouraged to become more active in the region. Entrepreneurs will find role models and examples in this publication that may coincide with their own needs and ambitions, and should consider raising private equity financing from the region's professional fund managers. Finally, Central and Eastern European policymakers and lawmakers will realise that private equity financing helps numerous companies across the region to develop and plays a key role in boosting regional economic growth. All of these interested parties are invited to read this publication and take a closer look at the successes of the Central and Eastern European private equity industry and its positive impact on the region.

In early 2004, the European Private Equity and Venture Capital Association's (EVCA) Central and Eastern Europe Task Force polled private equity fund managers active in the region and selected twenty-five stories that are presented in the following pages. These stories are a representative cross-section of the types of investments and exits made across Central and Eastern Europe to date, but they are only a sample of those that have reached full or partial exit in the region. Many other interesting investments that are already successful in their own right are not presented, but should be reviewed when considering the overall achievements of private equity in Central and Eastern Europe.

It is clear that private equity has become an important part of the capital markets of Central and Eastern Europe, despite the relative youth of this form of financing in the region. The examples presented here show that with private equity capital, companies across Central and Eastern Europe have demonstrated significant growth and in many cases have become leaders in their markets. Private equity investors have contributed not only capital, but also know-how, expertise and assistance that have proved crucial to the development and success of the companies they supported. In all cases, by the time of the investor's exit the businesses were more transparent, had improved employment prospects, and had become highly competitive in their countries and in some cases well beyond the region. The success of these companies also reflects the professionalism and skills of the private equity fund managers across the region.

These stories represent success on more than one level. Of course, the investors achieved significant financial success in terms of monetary returns, and in many cases, the other shareholders and the management of the companies shared the financial reward. However, success is greater than just the investor's internal rate of return. It extends to the economic impact on the Central and Eastern European economies, which is linked to the positive effects on customers, suppliers, employees and all partners connected with the business. Success also includes the building of lasting, strong, well-managed companies that have pursued a path of continued value creation well beyond the exit of the private equity investor. The stories in this publication encapsulate all of the above and justify the need to give support to this type of financing in Central and Eastern Europe.

EVCA would like to thank all the contributors to this paper and acknowledge the valuable time they have given in helping bring it to publication. In particular, we extend a special thanks to the private equity fund managers who contributed the stories, all the members of the EVCA Central and Eastern Europe Task Force, and the EVCA staff who worked on the production of this paper.

Robert J. Manz, *Enterprise Investors*
Chairman, EVCA Central and Eastern Europe Task Force

EXPLANATORY NOTES

Central and Eastern Europe

For the purposes of this publication, Central and Eastern Europe comprises the countries of Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Currencies

In most cases, the stories are written using the currency invested by the private equity fund. Where the figures are given in dollars, this is because many of the investment funds raised during the 1990s and until recently were denominated in that currency. Only lately, with the accession of eight Central and Eastern European countries to the European Union, investment funds are increasingly denominated in euro.

Private equity

Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved using private equity funding. Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

Note: Only the fundraising statistics in this publication include the contributions of multilateral organisations active in Central and Eastern Europe; other statistics do not include direct investment activity of these organisations in the region.

Introduction

The private equity industry in Central and Eastern Europe (CEE) is nearly 15 years old. The first fund raisings and investments were completed in 1990, shortly after the fall of communism. Although relatively young compared to the private equity industries of Western Europe and the USA, CEE private equity has developed considerably since its inception. Estimates suggest that during the past 15 years, more than €7bn of funding has been raised for private equity funds dedicated to the CEE countries. From this, over 900 investments have been made in the region and more than 400 exits achieved. It is further estimated that of the funds raised to date, some 75% have been invested. Today, there are approximately 77 private equity fund managers active in the region.

Over this period, private equity financing has rapidly gained acceptance as a permanent part of the CEE region's capital markets. With an increasing number of private equity investments and exits completed, awareness of private equity as a financing source has grown among those needing financing as well as among policymakers and other capital markets players. While in the early days of CEE private equity the prominent form of external funding for many companies was bank loans, this is no longer the case following the privatisation of banks across the region. Private equity in the CEE region now plays a similarly important and prominent role to that seen in Western Europe. Companies and managers are increasingly looking to private equity and equity in general to fund their start-ups, expansion plans and buyout opportunities.

The conditions for private equity in CEE continue to develop in a positive way. Many former start-up companies have developed over the years to become more mature market players that continue to grow, in some cases internationally, and provide an ample pool of investment opportunities. Management teams have become significantly more experienced, and repeat entrepreneurs are present on the market. The availability of experienced local managers has improved dramatically and is contributing to the growth of management buyin and management buyout transactions across the region. Managers with strong and tested track records are now behind new ventures. The region's companies are increasingly technologically advanced and have proved they can succeed against the best world-class competitors. Debt financing for private equity transactions is also increasingly available, contributing to a growth in the volume of larger deals and widening the scope of transactions being completed. Following local pension reforms, the local stock markets, in particular Warsaw, are proving to be an attractive exit route for private equity players. Finally, industry investors, both foreign and domestic, have shown a keen interest in buying CEE companies that received private equity support.

Eight of the ten countries that joined the European Union on 1 May 2004 are from Central and Eastern Europe, and the other three countries in the region are expected to join the European Union in the foreseeable future. Both the run-up to accession and the post-accession integration periods are proving to have many positive benefits for the private equity industry in CEE. First and foremost, institutional investors are adjusting their perception of risk in the CEE markets in line with the reality that these are low risk and high growth markets. The harmonisation of legal, regulatory, administrative and economic policies with those of the wider European Union has already improved the infrastructure for private equity investments and exits in the CEE region. The economies of the CEE countries are growing at a significantly higher pace than the European Union as a whole, and they continue to receive significant new foreign and inward investment. This indicates that investment opportunities will continue to abound and value creation will flourish.

With continued institutional reform across the region as well as growing individual wealth creation, local pools of professionally managed capital are increasingly available and will play a growing role in providing capital for private equity exits. While at present these domestic investors do not participate sufficiently as funding sources for CEE private equity, it is mainly due to current legal and regulatory restrictions that should be increasingly lifted during the post-accession integration period.

The development of private equity in CEE is, however, still at a relatively early stage. While the initial activity of a few pioneers commenced in the early 1990s, the bulk of fund raisings and investments did not start until the mid and late 1990s. This means that many of the private equity funds started to date have not yet completed a full cycle of investments and exits. Hence, overall returns of the industry to date may not be fully meaningful as many companies have not yet reached the exit stage. However, the amount of capital raised to date for private equity funds and the fact that numerous blue chip international institutions (i.e. pension funds, banks, insurance companies, and funds of funds) continue to invest repeatedly in CEE private equity funds, proves that attractive returns are available in the region. In addition, it should be noted that some fund management groups in the region have been operating in cohesive teams for several years and an increasing number of them have successfully raised follow-on second, third, fourth and even fifth funds based on the successful returns in their initial funds.

The good news for potential investors is that the first steps toward a vibrant local private equity industry have already been successfully taken. The private equity industry in CEE is growing and offers many excellent investment opportunities. The collection of success stories in this publication shows that attractive investments can be made and exited across the region, in a variety of industries and at very different stages of company development.

Introduction

CEE QUESTIONS AND ANSWERS

Many of those interested in the private equity industry in CEE have questions about key facts relating to the region. As part of this publication, EVCA's Central and Eastern Europe Task Force approached interested parties to find out which issues are of greatest interest. The questions that came up most often are answered below.

1. How much capital has been raised for private equity in the CEE region?

It is estimated that over €7bn in capital has been raised to date for private equity funds targeting the CEE region. This has taken place in four distinct waves: the first pioneering country-only funds were raised in 1990-92; this was followed by a wave of country-only funds in 1994-95 and a wave of regional funds in 1997-2000; the latest wave of both country-focused and regional funds was raised in 2003-04.

Looking more specifically at the last two years, EVCA's annual survey results indicate that in 2003 fundraising activity increased by 28% in all of CEE to an overall value of €312m, compared to €243m in the previous year. A significant increase in volume occurred in the markets of the Czech Republic and Hungary, which increased by 68% to €94m in 2003 and by 27% to €40m respectively. The Baltic States achieved an exceptional increase of more than 50 times the 2002 value, topping €105m in 2003. Growing institutional appetite for private equity investment opportunities in the region and the accession of eight of the CEE countries to the European Union supported this increased fundraising activity. In comparison, the overall European fundraising value fell slightly from 2002 to approximately €27.2bn in 2003.

Historically, institutional investors from Western Europe and North America have been the main sources of capital for CEE private equity funds. Domestic funding sources have not contributed much so far to CEE private equity funds, whereas in Europe as a whole an average of 50% of capital has been sourced domestically in recent years. It is hoped that this will change in the next few years as continuing pension reforms across the region create increasingly well-capitalised local institutions.

Looking specifically at 2003, non-domestic European institutions were the largest providers of capital to CEE private equity funds, contributing €128m, or 41% of the total. Non-European sources accounted for a further €60m, or 19% of funds raised. Local sources were strong in 2003, contributing 40% of the total, but this figure primarily reflects fundraising activity in the Baltic States. In the most developed private equity markets in the region (i.e. Poland, Hungary and the Czech Republic), domestic sources only contributed 21% of total capital raised. By comparison, in Europe as a whole in 2003, 55% of total fundraising for private equity came from domestic sources, 29% from non-European sources and 16% from non-domestic European sources.

Please note that the EVCA fundraising data presented here remains limited to capital raised by funds based in CEE and is shown as raised by the country where the fund is based, not necessarily where the funds will be invested. The data does not include those funds that have declared a dedicated investment allocation to CEE and are not located in the region.

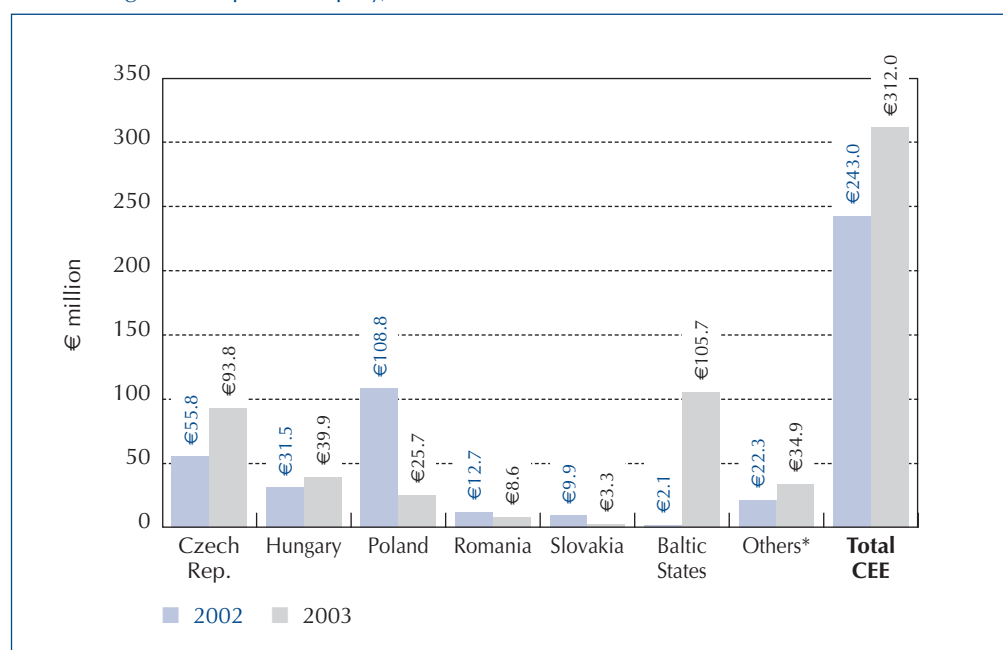
Fundraising for CEE private equity, 2002-2003

€ '000	Czech Republic	Hungary	Poland	Romania	Slovakia	Baltic States	Other*	Total CEE
Domestic	12,672	16,365	5,242	535	1,539	52,859	34,942	124,154
Other European	35,365	16,994	19,245	5,144	335	50,836	0	127,919
Non-European	45,730	6,546	1,250	2,890	1,444	2,023	0	59,883
Total 2003	93,767	39,905	25,737	8,569	3,318	105,718	34,942	311,956
Total 2002	55,777	31,533	108,763	12,673	9,891	2,111	22,296	243,044

*Bulgaria, Croatia, Slovenia

Source: EVCA

Fundraising for CEE private equity, 2002-2003



*Bulgaria, Croatia, Slovenia

Source: EVCA

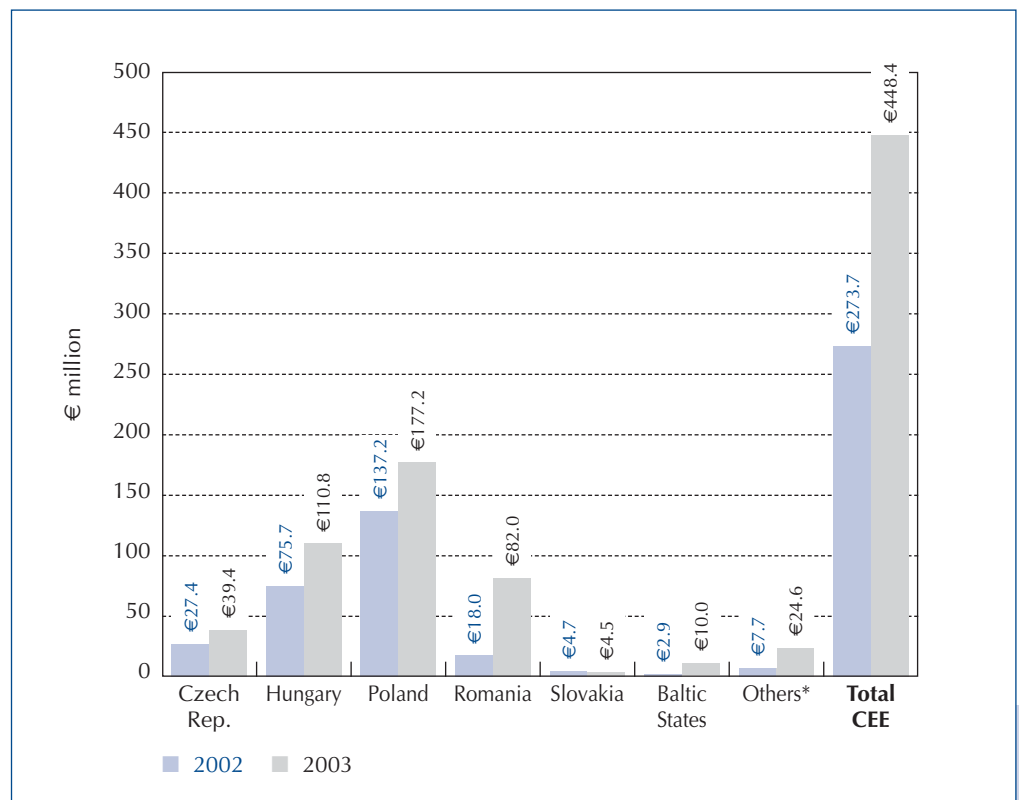
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2. What is the level of private equity investment activity in CEE?

Estimates of total investment activity over the past 15 years indicate that some €5bn of private equity investments have been completed in the CEE region in more than 900 companies.

With regard to recent annual investment levels, according to EVCA figures, total investment for the CEE region in 2003 reached €448m and was 64% higher in value compared to 2002. The largest part of this was invested in Poland, followed by Hungary, Romania and the Czech Republic. All countries in the region experienced notable investment growth in 2003, apart from Slovakia, which saw little change, and Croatia, which showed a slight reduction. This level of investment activity compares with a total €29bn in 2003 in the whole of Europe, which saw growth of approximately 6% from 2002.

Annual investment volume in CEE, 2002-2003



*Bulgaria, Croatia, Slovenia

Source: EVCA

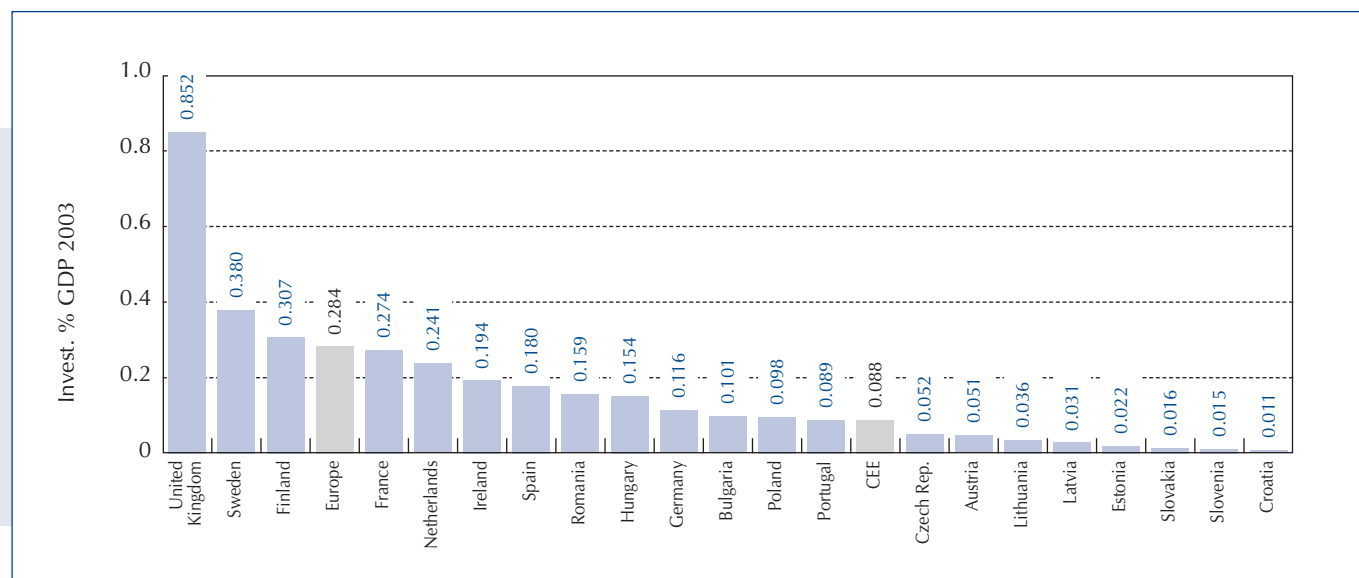
In 2003, total private equity investment in Europe was 0.284% of total European GDP. Given that private equity has existed for a shorter period in the CEE region and that debt has become available to support larger transactions only recently, investment levels measured against GDP are below the European average. However, almost all countries in the CEE region managed to increase private equity investments as a percentage of GDP between 2002 and 2003. These figures indicate there is significant scope for potential growth in investment activity as the private equity markets in CEE develop and become more mature.

Investments as a percentage of GDP in Central and Eastern Europe, 2002-2003

€ '000	2002 Total Investment	2003 Total Investment	Invest. % GDP 2002	Invest. % GDP 2003
Romania	18,008	82,020	0.037%	0.159%
Hungary	75,747	110,755	0.110%	0.154%
Bulgaria	2,694	18,043	0.016%	0.101%
Poland	137,238	177,213	0.069%	0.098%
Czech Rep.	27,370	39,422	0.037%	0.052%
Lithuania	1,206	5,647	0.008%	0.036%
Latvia	998	2,692	0.011%	0.031%
Estonia	698	1,661	0.010%	0.022%
Slovakia	4,737	4,479	0.018%	0.016%
Slovenia	1,720	3,714	0.007%	0.015%
Croatia	3,312	2,799	0.014%	0.011%
Total	273,728	448,444	0.054%	0.088%

Source: EVCA, Eurostat (GDP)

Private equity investments as a percentage of GDP for Europe, CEE and selected European countries, 2003



Source: EVCA

Capitalising on Convergence in Europe



Who We Are

Emerging Markets Partnership (Europe) Limited (EMP Europe) runs the \$550 million AIG Emerging Europe Infrastructure Fund. The Fund, which invests in Central and Eastern Europe, is the largest and among the most successful in the region. The EMP Europe team is represented across the region with 12 professionals in London, Budapest and Warsaw.

Our Focus

Launched in the autumn of 1999 to take advantage of the convergence story of Central Europe and the European Union, the Fund is focussed on the EU accession countries with a sector concentration covering telecoms and media, transportation, utilities, natural resources, and basic industry. With 10 large investments in nine different countries to date, the Fund is an active and knowledgeable investor throughout the region.

Our Investments

The Fund invests in mature, cash-flow generative investment opportunities in the region in sectors with a high entry barrier and/or where a small number of companies enjoy market dominance in their sector, often as a result of licenses, concessions or a unique regulatory position. This has led the Fund to invest in mobile telephony, cable television, rail transportation and oil and gas.

Our Investment Philosophy

EMP Europe has two well-tested investment models: (i) acquiring controlling stakes, alone or in consortia; or (ii) investing as a minority investor with strong governance rights alongside a strategic/industrial player. In either model the Fund is an active participant in the development of business plans, ongoing oversight, capital structure decisions and exit strategy. In both cases we seek to utilize the Fund's size advantage to take significant stakes from €20 to €50 million per investment. Our investments are typically in the form of direct equity stakes, but we have the flexibility to provide mezzanine finance with an "equity kicker".











What Next

With \$475 million of the Fund committed, and based on the successful model employed and very positive results achieved to date, EMP Europe will soon be launching a second fund to continue to participate in the attractive upside still available in Central and Eastern Europe.

Our Track Record

With a gross IRR of 46% and 2.1 times money on realised investments to date, EMP Europe is well on its way to delivering significant returns to its investors.

Our portfolio is as follows:

  	Mobile telephony investment portfolio with investments in Slovakia, Czech Republic and Romania Orange US\$ 55 million Oskar US\$ 55 million Connex US\$ 43 million
	Joint investment with Pilkington plc to build the largest and most modern float glass plant in Russia US\$40 million
	Buyout of the second largest fixed line telephony operator in Hungary with over 400,000 subscribers US\$ 45 million
  	Investment platform in the leading Cable TV and Broadband Internet operators in Poland, Slovenia and Czech Republic with over 700,000 subscribers Aster US \$27 million Telemach US \$26 million Karneval US \$21 million
 Melrose Petrol GmbH	Investment with Melrose Resources for development of the Black Sea offshore Galata gas field in Bulgaria US \$23 million
	Investment in the acquisition and development of the privatised cargo rail operator in Estonia US \$42 million

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3. What are the trends in types and sectors of private equity investments in CEE?

As in Europe as a whole, the largest volume of investments in CEE is in buyout, expansion and replacement capital transactions. In 2003, these types of transactions accounted for 94% of total investment value, compared to 93% for Europe overall. Although buyouts are the largest category in both cases, it is clear that expansion capital transactions make up a more significant part of the CEE market than in Europe as a whole. This is due in part to the high growth of the CEE economies, where companies are seeking development financing. As well, given the short period of existence of market economies in CEE, the companies in the region are relatively young and historically less ripe for buyout. It is therefore expected that expansion financing will continue to make up a large part of private equity activity in the region for some years to come.

However, in the past two years market players have noted a trend toward an increasing number of buyouts. The number and size of these transactions is on the rise thanks to a favourable combination of factors: a growing number of private companies with seasoned management teams, the restructuring of conglomerates and the availability of debt financing. Fund managers today are completing transactions to buy out local entrepreneurs that would not have been possible some five years ago. This is helped by an ever-increasing pool of available management talent that the private equity investor can draw upon to replace entrepreneurs who are no longer key to a company's development. CEE buyouts in the mid-1990s were dominated by privatisation transactions, where private equity funds supported incumbent management teams to buy out companies from state treasuries. The latest buyout trend is focused mostly on private companies and spin-offs from local and international conglomerates.

Seed financing forms a small element of the private equity market in CEE, but governments in the region are increasingly making an effort to stimulate this activity. Start-up and early stage financing is for the most part conducted by country-focused funds and represents a similar portion of the market as in the whole of Europe. However, this varies significantly country to country, and in the most developed private equity markets in the region, early stage investments are low compared to most of Europe. This has created an "equity gap" for early stage companies across most of the CEE region.

Type of investment in CEE vs. Europe, 2003

€ '000	Total CEE	% of total	Total Europe	% of total
Seed	766	0.17	165,645	0.57
Start-up	24,233	5.40	1,993,508	6.82
Expansion	145,382	32.42	6,296,399	21.56
Replacement capital	51,208	11.42	2,299,776	7.87
Buyouts	226,855	50.59	18,457,167	63.18
Total	448,444	100.00	29,212,495	100.00

Source: EVCA

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Type of investment by CEE country, 2003

€ '000	Czech Republic	Hungary	Poland	Romania	Slovakia	Baltic States	Others *
Seed	0	0	166	0	0	0	600
Start-up	1,378	753	2,842	0	0	832	18,428
Expansion	25,421	19,986	39,952	49,887	4,479	131	5,528
Replacement capital	0	1,759	42,199	519	0	6,730	0
Buyouts	12,624	88,257	92,054	31,614	0	2,307	0
Total 2003	39,422	110,755	177,213	82,020	4,479	10,000	24,556
Total 2002	27,370	75,747	137,238	18,008	4,737	2,902	7,726

*Bulgaria, Croatia, Slovenia

Source: EVCA

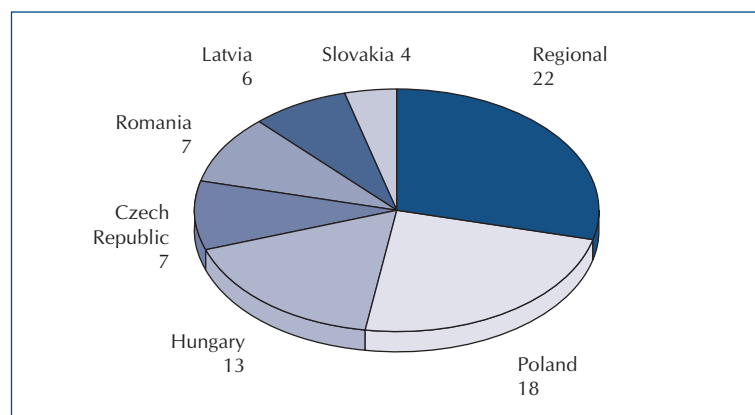
In terms of sectors, those attracting the most investment capital over the past 15 years include telecommunications, consumer goods and services, industrial products and services, media, and financial services. A wide range of sub-sectors have benefited from private equity financing over the past decade, as can be seen in the collection of success stories in this publication. Technology has received significant investment capital, although not nearly on the scale seen in Western Europe and the USA during the internet boom years. While the IT industry in CEE also suffered a downturn following the bursting of the internet bubble, due to an overall lower concentration of investments in this area, CEE fund managers were relatively less affected during that time. The technology sector continues to be an area of interest in the CEE region.

The average size of private equity investment has been growing in the CEE region as companies develop and their needs grow in line with overall economic development. On balance, the average size of investment in the CEE countries across all transaction types is similar to that of Europe overall. However, what is noticeable is that fewer very large transactions (€200m and more) have occurred in the region to date. Historically, this was a result of CEE companies being comparatively smaller and less debt financing being available to finance very large buyouts. At the time of writing, the largest private equity transaction to date in CEE was a leveraged buyout of Bulgarian mobile operator MobilTel, completed in May 2004, with a total deal size of €1.2bn including a €450m equity component.

4. How many private equity fund management teams are active in the CEE region?

Fund management teams in CEE can be segmented into two types. The first group comprises regional teams that manage regional funds and typically operate with a network of offices in multiple countries. The second group is made up of country-focused funds that operate out of one country. Regional teams are usually larger and account for 22 of an estimated total 77 private equity teams active in the CEE countries. As one would expect, the number of investment professionals is proportional to the fund size managed by the team, with an average of one professional for every €10m-€20m under management.

Fund management teams in Central and Eastern Europe



Source: EVCA estimates based on national venture capital association data

5. What are the exit routes used by private equity funds in CEE?

Since the inception of the private equity industry in CEE, it is estimated that more than 400 companies have been exited. Most exits have occurred through trade sales to both international and domestic industry buyers. Trade buyers continue to show an active and increasing interest in the region. Public market exits have played an important and growing role in CEE exits. The Warsaw Stock Exchange in particular has proved to be a viable exit route for private equity backed companies. As well, exits have been achieved through listings on other domestic and international exchanges, including Prague, Nasdaq and the Vienna Stock Exchange. With further pension reform and wealth creation in the CEE region, it is expected that regional stock exchanges will continue to develop. Another important historical exit route has been divestment to management, whereas secondary sales to other private equity funds have played a relatively minor role to date.

When looking specifically at exit achievements in 2003 and comparing the types and the volumes of exits across the CEE region with figures for Europe as a whole, it can be seen that trade sales and sales to management in CEE accounted for a significantly larger share than in Europe. At the same time, secondary sales to other venture capital funds were marginal in CEE, indicating higher liquidity provided by traditional means. While the public markets were mostly closed all over Europe in 2003 for IPOs, private equity managers in CEE did successfully use the local markets to generate significant exits. This trend is continuing into 2004, with private equity backed companies going public in Warsaw and Prague.

Introduction

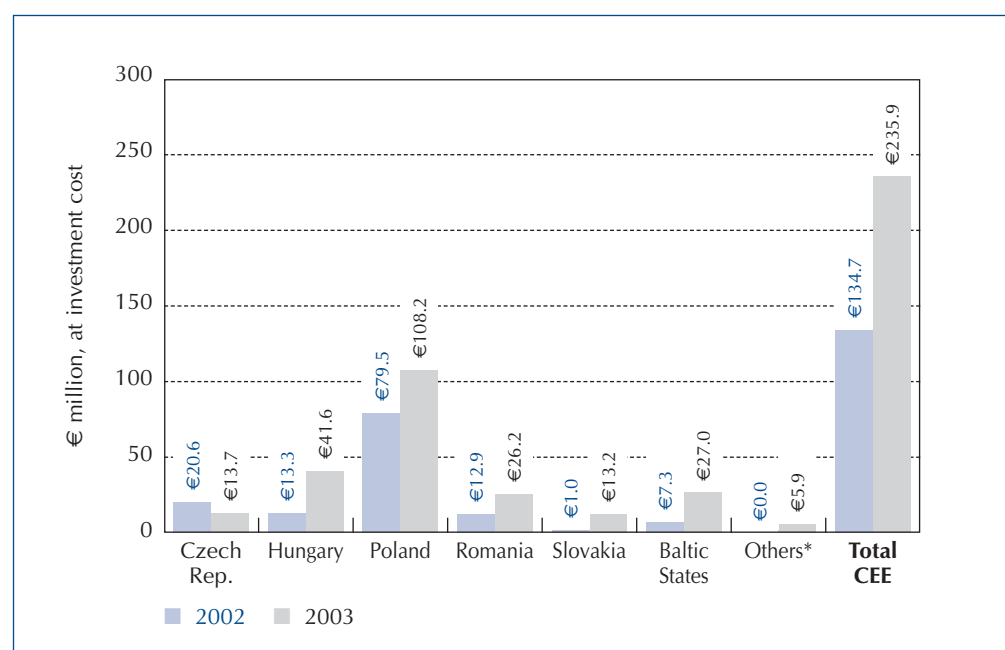
Exits in Central and Eastern Europe vs. total Europe, 2003

Exit value at investment cost, € '000	Total CEE	% of total 2003	Total Europe	% of total 2003
Divestment by trade sale	74,752	31.69	2,782,576	20.42
Divestment by public market	25,678	10.89	1,599,962	11.74
Divestment by write-off	18,482	7.83	1,579,103	11.59
Repayment of principal loans	22,564	9.56	2,171,205	15.93
Sale to another venture capitalist	5,868	2.49	2,746,086	20.15
Sale to financial institution	670	0.28	819,715	6.02
Divestment by other means	36,226	15.36	1,171,539	8.60
Sale to management (MBO)	51,667	21.90	755,942	5.55
Total 2003	235,907	100.00	13,626,128	100.00
Total 2002	134,653		10,694,903	

Source: EVCA

Exit volumes increased in all surveyed CEE countries from 2002 to 2003, with the exception of the Czech Republic. The total exit value (at investment cost) for all CEE countries grew by 75% in 2003 to €236m. The largest volume of exits occurred in Poland, with a total exit value of €108m, followed by Hungary, the Baltic States and Romania. Exit volume in CEE in 2003 represented 53% of investment volume in the same year, while for Europe as a whole the corresponding figure was 47%.

Divestments at cost by CEE country, 2002-2003



*Bulgaria, Croatia, Slovenia

Source: EVCA

It is widely expected that after European Union accession, exit prospects in the countries of the CEE region will improve further. The reasons include: an increased interest by foreign trade players to develop their business activities in the lower-cost, higher-growth CEE economies; increased cross-border activity by the region's own corporations; increased interest by foreign institutional investors in local publicly traded companies; a general decrease in the perceived level of business risk in the CEE region; and rapid improvements to the liquidity of domestic capital markets. Private equity players active in those countries that recently joined the European Union are already reporting an improved exit environment.

6. Is leverage available for private equity transactions in the CEE region?

In the 1990s, a number of private equity transactions in the region were structured using relatively small amounts of debt. As well, over the past decade fund managers have successfully introduced leverage into their investee companies for recapitalisations that resulted in partial exits. Through 2001, nonetheless, most private equity transactions in the CEE region were completed primarily with equity-only and quasi-equity transaction structures. However, in addition to the multilateral organisations already active in the region, in the last two years an increasing number of commercial banks have begun providing senior and subordinated debt on a significantly larger scale. A number of dedicated mezzanine funds are now also active in the region.

These developments have given private equity fund managers additional tools to structure transactions and consider new types of projects. For example, fund managers are now reviewing and completing cash flow driven investments in addition to value-based ones. Part of the impact is already seen in the increasing number of buyouts between 2002 and 2003 in the region. Buyouts in 2003 represented 51% of all investments in CEE, compared to 63% for Europe, and this level is expected to grow in 2004.

Recent transactions across the region that have included a significant debt component in their up-front structures include investments in the following sectors: construction chemicals, DIY retailing, consumer products, PVC isolation films, radio broadcasting, cable television, telecom services, mobile telephony, and fixed-line telephony. Such transactions have been concluded in Poland, Hungary, the Czech Republic, Bulgaria and Romania. The largest debt raising in a single private equity transaction in the region to date amounted to €650m in the leveraged buyout of MobilTel in Bulgaria.

Some issues still need to be addressed to further develop leveraged transactions in CEE. Financial assistance laws that prohibit placing transaction debt onto the balance sheet of target companies require clearer interpretation. As well, more certainty is required with regard to tax treatment in leveraged transactions, including the tax treatment of multi-tiered structures (e.g. the amortisation of goodwill). Some of these issues will be addressed through further experience and practice with debt providers. Others will be helped through further harmonisation with European Union practices. However, it is clear that an increasing number of private equity transactions will take advantage of available leverage as the market continues to develop.

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7. How do the economic growth rates of the CEE countries compare to the other countries of the European Union?

GDP in the 15 member states that formed the European Union until May 2004 grew at a rate of 0.8% in 2003. Market forecasts suggest average GDP growth rates of 1.9% and 2.3% in 2004 and 2005 respectively for the original 15 European Union countries. These figures are based on a combined population of approximately 380 million and a combined GDP of €9,300bn in 2003.

The eight countries from the CEE region that joined the European Union in May 2004 – Poland, Hungary, the Czech Republic, Slovakia, Latvia, Lithuania, Estonia and Slovenia – have a combined population of 73 million and a combined GDP of €420bn. With the other three countries from the CEE region, namely Romania, Bulgaria and Croatia, the population of the region goes up to 107 million, and GDP to €522bn. It is worth noting that Romania, Bulgaria and Croatia are currently in formal negotiations to join the European Union and are expected to complete accession in 2007.

GDP growth in the eleven CEE countries in 2003 averaged 3.9%, while the forecasts for GDP growth in 2004 and 2005 are 4.2% and 4.4% respectively. The variance of growth within the region is high, with Lithuania achieving GDP growth of 9.0% in 2003, while Slovenia increased GDP by 2.3%.

The countries of the CEE region have a significantly lower GDP per capita than the original European Union 15, by a factor of approximately four times on average. With political, economic, legal and administrative reforms either completed or well underway in the CEE countries and with the help of European Union structural funding, the economic growth of the region is set to outpace overall European Union averages for some time. This is expected to present increasing investment opportunities for private equity players active in CEE as they finance the companies taking part in the region's continuing economic development.

GDP growth in CEE and in the original 15 EU countries

GDP growth in %	2003	2004f	2005f
Original 15 EU countries	0.8	1.9	2.3
11 CEE countries	3.9	4.2	4.4
Bulgaria	4.3	4.2	4.0
Croatia	4.3	3.7	4.1
Czech Republic	3.1	2.9	3.4
Estonia	5.1	5.4	5.9
Hungary	2.9	3.2	3.4
Latvia	7.5	6.2	6.2
Lithuania	9.0	6.9	6.6
Poland	3.8	4.6	4.8
Romania	4.9	5.1	5.3
Slovakia	4.2	4.0	4.1
Slovenia	2.3	3.2	3.6

Source: Eurostat, Economist Intelligence Unit, IMF

Introduction

8. Do laws and regulations exist in the CEE countries to support private equity investments?

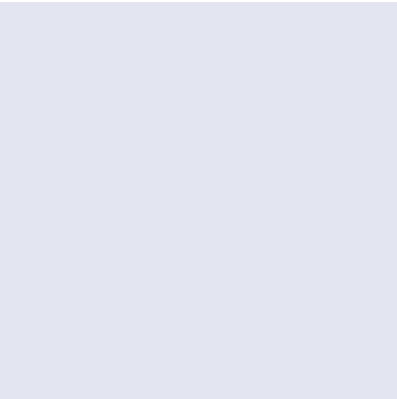
When looking at the volume of private equity investments completed and successfully exited in the CEE region to date, it is clear that the legal systems and regulatory regimes that have been in place even from the very early 1990s have been conducive to this type of investment activity. Over the last 15 years, however, it is not only the region's economies that have been subjected to shock therapy but also, in their own way, the individual countries' legal and regulatory systems. This has been largely driven by the region's successful integration with western institutions and the political desire to attract foreign direct investment. The efforts to join the European Union have been a major force for positive change. In the eight CEE countries that joined the European Union on 1 May 2004, the process of adapting legal codes to the requirements of the European Union is largely complete, subject to a few specific deviations, for example, on environmental issues. The countries of the region that are on their way to European Union accession in the near future are also quite advanced in introducing necessary legislative changes to upgrade their legal and regulatory infrastructures to European Union standards.

Although most of these changes have not been targeted directly at improving the private equity investment environment, they have clearly benefited private equity investors. Increased certainty as to property rights and quality of accounting standards has assisted in the initial stage of investment work. More confidence in an effective system of corporate governance is vital during the investment phase, while flourishing and well-regulated local capital markets are an obvious support on exit. This is reflected in the number and type of transactions being carried out in the region. Relatively complex deals have been completed and successful exits have been achieved, both through trade sale and IPO. A range of investment instruments is available, depending on the country.

However, the legal and tax environments in the CEE region are not yet as conducive to private equity investing as those in developed Western European markets. This is partly reflected in the historically lower level of private equity investments as compared to GDP seen in the CEE region. It is also documented in a study published by EVCA in May 2004, entitled *Benchmarking European Tax and Legal Environments*. In this study, three of the four surveyed CEE countries ranked lower than the average for all surveyed countries in terms of having tax, legal and regulatory regimes favourable for private equity. Policymakers are urged to take note of the suggestions for improvement that arise from this study.

When discussing the current environment with fund managers in the region, their main complaints relate to slow legal and regulatory processes, inexperienced and under-resourced judiciaries, excessive bureaucracy and over-hastily drafted laws. Of key significance are the legal and regulatory barriers prohibiting domestic capital sources from investing in private equity funds. However, many of these issues are being worked out with time, experience and exposure, in some cases helped by active efforts on the part of local private equity associations to raise awareness.

It can be concluded that the legal and regulatory systems in the CEE region do in fact support private equity investing. This is reflected in the successful development of the private equity industry to date. However, there is room for improvement, and with the increasing importance of the private equity industry, policymakers across the region are paying more attention to the specific needs of the industry and starting to actively address barriers to its further development.



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● 3TS Venture Partners

3TS Venture Partners Oy is a venture capital firm operating through offices and teams located in Prague, Budapest and Warsaw. 3TS is the investment adviser to the Euro 66.0 million Technologieholding Central and Eastern European Funds targeting investments in technology, media and telecommunications companies primarily in the EU accession countries of Central Europe. 3TS has a sector focus but is a balanced investor able to complete investments in early through to late stages.

3TS Venture Partners is jointly sponsored by 3i Group plc., one of the leading VC firms in Europe and SITRA, the Finnish National Institute for Research and Development.

● Sector Focus

3TS Venture Partners supports and enables the growth of companies developing technologies with global potential or media and telecom related services able to achieve country or regional market leadership. The sectors targeted include telecommunication services and systems, electronics, internet and network-enabling technologies, communication infrastructure, environmental, enterprise, IT, media and software. We rank management and leadership highly and target companies with established track records and operating performance.

● Deal Size and Time Horizon

The preferred total investment size is in the range of Euro 2.0 to Euro 6.0 million, but investments as small as Euro 1,500,000 are possible with the potential for the Funds to support follow-on investments. The maximum investment is Euro 6.5 million. 3TS Venture Partners can syndicate larger investments due to its existing relationships and network of co-investors.

As the purpose of venture capital is to support a critical growth phase of a company, the investment time horizon is typically 3-5 years at which time the company is better positioned to realise other forms of follow-on funding, IPO or an investment or sale to a strategic partner. The primary purpose of 3TS Venture Partners is to realise capital gains on the invested funds and so the primary exit routes will be through a sale of all or part of the company to a trade investor or the flotation of the company as an IPO.

● Form of Investments

Investments are made through capital increases or through the subscription of equity linked securities such as convertible loans. Capital increases are made in preferred or common equity. Secondary purchases of existing shares are considered.

● Active Participation

To support the management of a company, 3TS Venture Partners seeks a position as a board member in all companies. In this role, 3TS helps to establish reporting and management systems, planning and strategic development, recruitment, identification and negotiations with sales channel and technology partners and the overall development of the business. 3TS Venture Partners has a network of industry experts and partners that enhance screening, due diligence, evaluation of business plans and post-investment business development.

3TS Venture Partners encourages independent industry specialist directors, advisory boards and third party consultants to further the development of companies.

● Management

The senior management team is Mr. Michael White, Mr. Hannu Piepponen, Mr. Daniel Lynch, Mr. Pekka Santeri Mäki and Mr. Kimmo Irpola. The adviser team includes the following Investment Managers acting also as Country Managers Mr. Istvan Alpek, Hungary, Mr. Jiri Benes, Czech Republic, Mr. Piotr Nocen, Poland. Each team member has over 10 years of venture capital financing and related experience in Central Europe or outside of the region.

● The Fund Sponsors

The main investors and the sponsors are leading European institutional venture capital, private equity and technology investment managers with established networks and operations in all leading markets. These include 3i Group plc (UK), SITRA (Finland), the European Bank for Reconstruction and Development (ERBD), Kreditanstalt für Wiederaufbau (Germany), MPC Global Equity Funds (Germany) and 5E Holding AG (Switzerland).

Cable TV operator succeeds in roll-up plan to become clear market leader

- Activity:
Media
- Country:
Poland
- Private equity investors:
Advent International (lead);
Copernicus Capital Partners;
Innova Capital
- Capital invested:
\$66m
- Type of deal:
Expansion capital
- Initial investment:
1996
- Exit:
1999

@Entertainment

Attracted by the prospect of consolidation of the cable TV market and by the company's track record, Advent led a syndicate of investors to inject a total \$66m for a 40% stake in the business. In 1999 the company, which had grown its subscriber base significantly, was sold at auction to United Pan-Europe Communications for \$1.2bn, generating IRRs of over 40% for the investor syndicate.

COMPANY BACKGROUND

In early 1996, @Entertainment was one of Poland's leading multi-channel TV providers in a fragmented market, with 285,000 subscribers. At a pivotal stage in the consolidation of the Polish cable TV market, @Entertainment needed to raise substantial capital to pursue its roll-up strategy and to finance a planned digital satellite pay TV service (Wizja TV). With an EBITDA of \$8.4m and sales of \$25m the company was already successful, but still lacked visibility among international public investors. The decision was taken to seek private equity funding.

INVESTMENT

George Swirski, partner at Advent, emphasises that the prime attraction was the role @Entertainment would play in future industry developments: *"@Entertainment had already shown its mettle, capturing market share in a tough, competitive environment. For it to go further, we knew it needed the additional resources and credibility that our consortium could provide."* In 1996, Advent International invested \$36m for an equity stake of around 20%, while Copernicus invested \$2.5m and Innova \$4m for their respective 1.5% and 2.1% stakes. The total deal value, including other investors, was \$66m for an equity stake of around 40%.

COMPANY PERFORMANCE

The syndicate introduced improvements in the organisational capacity of the business. A new CEO and CFO were recruited, the headquarters relocated and the sales team expanded. As a future Nasdaq listing was central to financing @Entertainment's expansion strategy, tax and governance structures were upgraded in anticipation of the US Security and Exchange Commission's scrutiny. The investment capital was put to work, consolidating market share via acquisition and underwriting the launch of the new satellite TV business.

Key to @Entertainment's success was the accelerated fund-raising programme that supported its expansion. By the end of 1996, the company had successfully put together a \$100m high-yield debt offering. A Nasdaq listing followed in 1997, raising a further \$200m. In 1998, @Entertainment pushed through another \$100m high-yield issue, as well as a \$50m convertible security offering, bringing accumulated debt up to \$500m.

By late 1998, @Entertainment had 1.2 million subscribers for its various services, including 900,000 cable TV (CATV) subscribers. By augmenting its product range it had successfully migrated the majority of its subscribers to higher-fee packages, and it had introduced new technologies to broaden channel offerings and improve security. The result was a leader in the Polish cable TV and digital satellite direct-to-home market. Revenues rose to \$62m that year, although due to the high costs of implementing the new projects, the business was operating at a loss.

@Entertainment

EXIT

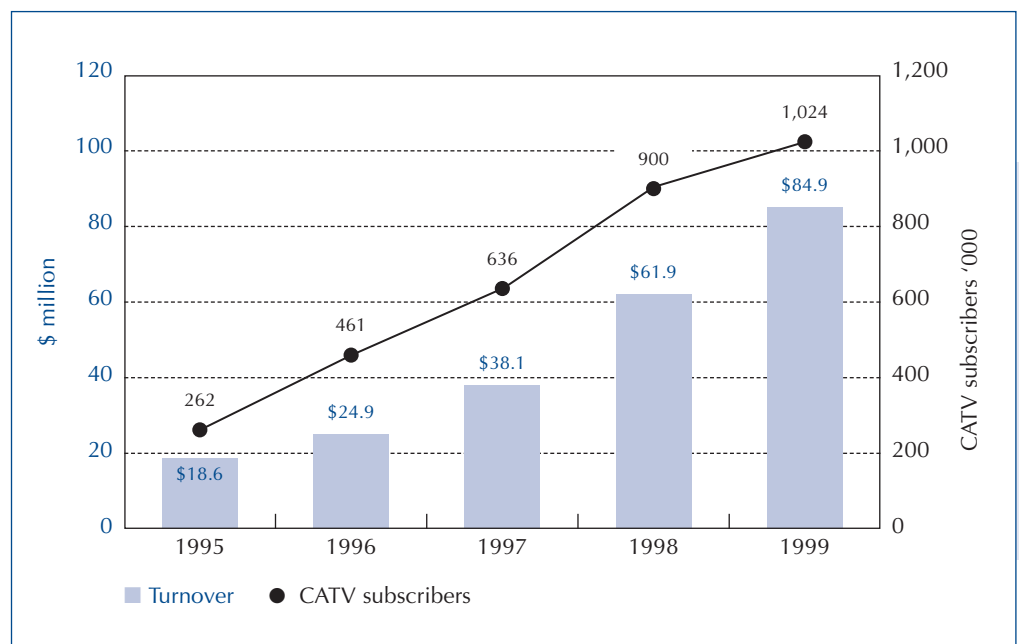
With its strong countrywide market share, @Entertainment was very well placed to take advantage of an upsurge in foreign investor interest and consolidation activities in the sector across Europe. This was aided by a recovery in international debt markets in 1999 and rapidly expanding valuation multiples in the cable TV sector. United Pan-Europe Communications emerged as the strongest prospect through an auction process, and finally acquired @Entertainment in mid-1999 for \$1.2bn. Advent realised \$121m for its then 15.66% stake, which represented a 3.4-times cash multiple and an IRR of 49%; Copernicus achieved a 3.1-times cash multiple and a 47% IRR; and Innova exited with a 2.6-times cash multiple and an IRR of 42.5%.

A private equity investment gave the company the funding and credibility it needed to pursue an aggressive roll-up strategy. The firm successfully exploited Poland's fragmented cable and digital satellite markets to consolidate its position as the clear leader among multi-channel TV providers.

VALUE ADDED

Without the financial credibility, enhanced governance and funding provided by the consortium, @Entertainment would have been hard-pressed to realise its rapid expansion plan. Specifically, the syndicate played a lead role in preparing the company for its Nasdaq listing, as well as helping to redirect company strategy in various important ways, including the development of exclusive Polish-language programmes and the launch of Wizja's direct-to-home platform. These actions and the concerted effort toward a well-timed exit were key to delivering strong returns.

Turnover and subscriber growth 1995-1999



Hungary's largest dairy products company created through an MBO

- **Activity:**
Food processing, dairy
- **Country:**
Hungary
- **Private equity investors:**
Euroventures Hungary;
Equinox (associated with Advent)
- **Capital invested:**
€2.2m
- **Type of deal:**
Management buyout
- **Initial investment:**
1997
- **Exit:**
1999

Avonmore Pásztó

The company evolved from a struggling local supplier of branded dairy products to become a market leader in Hungary. In less than two years after the investment by Euroventures and Equinox, the company's sales increased by 50%, with a 200% increase in pre-tax profits. A trade sale to the second largest player in the market generated a 2.4-times cash multiple and a 53% IRR for the investors.

COMPANY BACKGROUND

As the Hungarian subsidiary of what was Avonmore Foods (now Glanbia, a dairy and meat multinational based in Ireland), the management of Avonmore Pásztó knew that its parent's imminent withdrawal from Hungary would leave the company fighting for survival in what was, in 1997, a fragmented local dairy products market. Just managing to break even on sales of approximately €30m, the company risked being taken over by one of its competitors, with inevitable job losses among its 300 employees. The alternative, however, was to move the company forward via a management buyout.

INVESTMENT

Six months before the management buyout, Euroventures was approached by Avonmore Pásztó's management team with the information that the parent company was indeed withdrawing from Hungary for strategic reasons. The investor was attracted by the experience and ambition of Avonmore Pásztó's management team, as well as by the opportunity to build market share from what was already a strong brand.

Euroventures and Equinox, a fund associated with Advent International, jointly backed the buyout. Euroventures led the deal negotiations, investing half the €2.2m needed to acquire 94% of the company, with Equinox investing the other half; €400,000 of the invested capital was in the form of a loan, on which the investors earned partly paid and partly rolled-up interest. The Hungarian Foreign Trade Bank Rt provided additional funds in the form of a €600,000 loan facility.

COMPANY PERFORMANCE

With the deal completed and the new investors holding a combined 94% stake in the business, the decision-making capacity was divided between an executive board comprising three Irish and three Hungarian managers, and a supervisory board on which Euroventures and Equinox controlled two of the three seats. Existing reporting structures were robust, with an established culture of monthly reporting already in place; two of the top directors had come through the company's accounting arm.

The financing was quickly put to work, funding a product launch and related marketing activity. The new product, a type of sour cream in which the butterfat content was replaced with vegetable fat, involved some complex regulatory and strategic marketing issues.

The launch proved successful and, during the 18-month investment period, the company's overall sales rose by 50% to €45m, with profits doubling over the same period. By the time of exit, Avonmore Pásztó was the Hungarian market leader in cartoned fresh milk (45% market share), sour cream (35% market share) and yoghurt (25% market share).

Avonmore Pásztó

EXIT

With the new product successfully launched, it was clear that Avonmore Pásztó had established its position in the Hungarian market. In 1998, the company's board decided to sell the business and an international search was conducted for a suitable buyer. The same year negotiations began with Italian-owned Sole, Hungary's second-largest dairy business, and lasted several months.

By this stage, 18% of the business was controlled by its management, as options had been vested over the investment period, with most of the remainder controlled by Euroventures and Equinox. A sale price was eventually agreed with Sole, which, after costs and debt repayment, represented a 2.4-times cash multiple and an IRR of 53% for Euroventures and Equinox. Avonmore Pásztó's CEO went on to become chief executive of the combined business, which traded under the Sole name and achieved the number one position in the Hungarian branded dairy products market.

As a result of this investment, Avonmore Pásztó was transformed from an under-financed local player into a part of Hungary's largest dairy products company, now run by the former Avonmore Pásztó management team.

VALUE ADDED

The success of this deal owed much to a combination of existing management expertise and the timely injection of additional resources. Avonmore's management knew that if they were to successfully transform the business into a key market player and attractive acquisition target they would need to do so quickly and decisively. Euroventures managed the purchase and sale of the business at a crucial stage in the development of the local market, adding significant value to Avonmore. Its support throughout the new product launch was also important, enabling the company to deal swiftly with a number of potentially threatening regulatory issues.

Buy-and-build strategy turns regional Romanian brewery into market leader

- **Activity:**
Brewing
- **Country:**
Romania
- **Private equity investors:**
Advent International;
Jupiter Asset Management;
Oresa Ventures
- **Capital invested:**
\$28m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1996
- **Exit:**
2000

Brewery Holdings

Advent International and Jupiter Asset Management established Brewery Holdings to acquire Miercurea Ciuc, a regional beer brewer and distributor in Romania. Despite high inflation and volatile exchange rates, real annual revenue growth averaged above 30% for the years 1997-2000. Total investment at the operating level exceeded \$35m, and by 2000 the firm had a 20% share of the national market. That year Brewery Holdings was sold to Austria's BBAG for \$154m, generating an investment return of 4.2 times invested capital.

COMPANY BACKGROUND

In 1996, the Romanian brewing sector was highly fragmented. Each of Romania's 41 districts had its own regional brewery, and none of these had more than 5% national market share. The Miercurea Ciuc brewery was at that stage a forward-thinking but under-invested business with 4% of the market. Although the brewery was profitable, with an EBITDA of \$6m on sales of \$14m, it suffered from a lack of resources, preventing management from growing the business and investing in sales and marketing. As a result, the firm was unlikely to survive in an increasingly competitive environment unless it embarked on significant changes.

INVESTMENT

Attracted by its early-stage potential, Advent and Jupiter were already scouting the Romanian brewing market. They believed that with the right platform for growth, there would be a reasonably clear route through to exit. Miercurea Ciuc met their investment criteria. With a one-site operation and modern brewing assets, it already possessed one mid-market national brand supported by a relatively effective distribution network, as well as a forward-thinking, quality-oriented management team.

In 1996 Brewery Holdings, in which Advent and Jupiter were equal shareholders, invested \$13.1m for a 48% stake in the brewery. A third investor, Meinel Bank, took an additional stake in Brewery Holdings in 1998, providing further funds for its buy-and-build strategy. Meinel Bank subsequently sold its stake to Oresa Ventures.

COMPANY PERFORMANCE

Following the initial acquisition of Ciuc, the industry began consolidating faster than expected, with international competitors such as Interbrew, South African Breweries and BBAG moving into the market. Brewery Holdings accelerated its acquisition activity and used additional funds that were injected into the firm in 1998 to purchase two regional breweries, Grivita and Haber. This raised Brewery Holdings' overall market share to 14%.

Advent and Jupiter initiated a far-reaching restructuring process of the three breweries, which were at varying stages of development in terms of management, assets, governance and brand recognition.

International brewing expertise was needed and John Gore, former technical director of Heineken's Spanish operations, was recruited as CEO in late 1998. He set about fusing the three breweries into one homogeneous unit, while overseeing further investments to enhance product quality, distribution and capacity.

Brewery Holdings

By 2000, Brewery Holdings had further grown its market share organically to 20%. Capacity had been boosted from 400,000 hectolitres in 1996 to over 2.4 million hectolitres in 2000. Brewery Holdings had become the top-ranked brewery in Romania and its two core brands, Ciuc and Gambinus, were among the five best-recognised and best-selling beers nationwide. At the same time, Advent and Jupiter had bought out most of the minority interests in the three breweries. By the time of exit, Brewery Holdings owned 100% of Ciuc and 96% of the other two firms.

EXIT

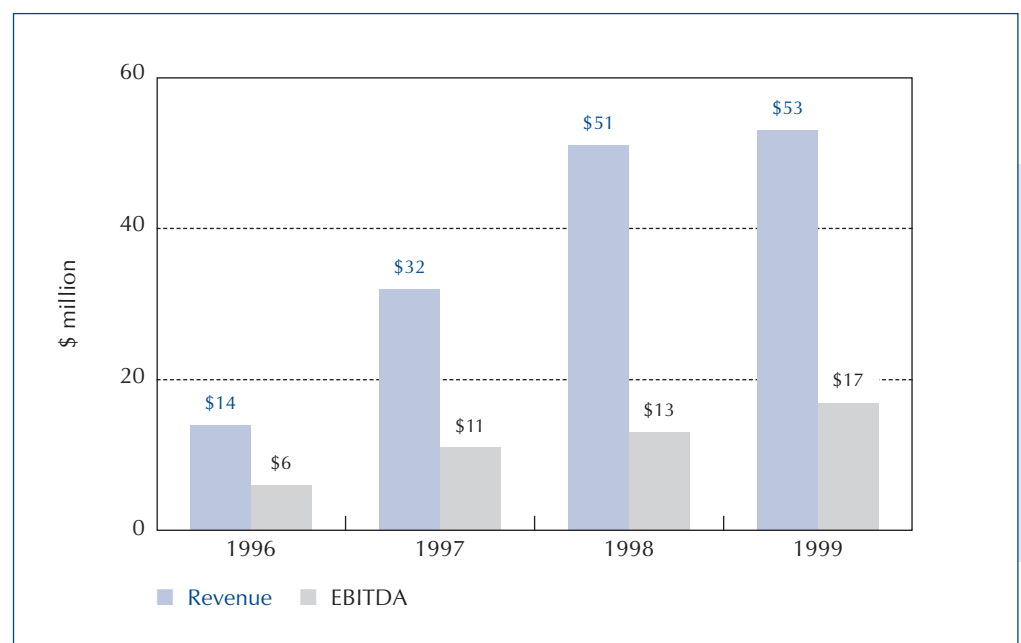
In 2000, with interest in the business mounting, Advent and Jupiter arranged to sell Brewery Holdings by auction. The winning bidder was the leading Austrian brewer BBAG, itself ranked second in the Romanian market with an 18% market share. For Advent, the agreed sale price of \$154m represented an overall 4.2-times cash multiple on its investment.

A focused investment strategy enabled this regional Romanian brewery to build a market-leading position through consolidation and development of its distribution network, and helped transform it into an attractive acquisition target for a strategic player.

VALUE ADDED

The investors' unrelenting focus on business development targets, aggressive corporate housekeeping and just-in-time investment in the business enabled Brewery Holdings to succeed in its acquisition strategy. By introducing the new CEO to the business at a key stage in its development, the investors accelerated the building of a top-class local management team, ensuring that the firm had the expertise it needed to develop in line with strategic buyer expectations. In particular, this led to its investment in sought-after distribution networks, which proved a key value driver at exit.

Financial performance 1996-1999



Turnaround of historic Latvian brewery marks beginning of market leader

- Activity:
Brewing
- Country:
Latvia
- Private equity investor:
Norway-Latvia Business Development Fund
- Capital invested:
\$216,580
- Type of deal:
Turnaround
- Initial investment:
1997
- Exit:
1999

Cesu Alus

The oldest brewery in the Baltic States was by 1997 in serious difficulties. Market share was dropping and the company was losing money. Nevertheless, Norway-Latvia Development Fund saw an opportunity to transform the company, investing \$216,580 for a 30% equity stake. In early 1999, Finland's Olvi plc bought a majority share in the brewery, generating a 3.4-times cash multiple and 297% IRR for Norway-Latvia Development Fund.

COMPANY BACKGROUND

Cesu Alus is the oldest brewery in the Baltic States, established in 1590. Following its privatisation in 1995, the company's management had done little to move the company forward, leaving it poorly equipped to compete in the open market. Market share had slumped to 2% from a high of 10% and the business, which brewed only "live" or unpasteurised beer, was making losses on annual revenues of \$1.5m. The company was relying on outdated production processes, inadequate marketing and little strategic oversight. External investment and an efficient restructuring were needed if Cesu Alus was to regain its former position in the market.

INVESTMENT

Facing severe financial and operational problems, Cesu Alus approached Norway-Latvia Development Fund in 1997. The investor was impressed by the strength and heritage of the Cesu Alus brand and by the opportunity it presented, if properly managed, for capturing some of the 60% market share of the then dominant player, Aldaris. Norway-Latvia Development Fund also identified strong exit potential in one of the large Scandinavian breweries that was attracted by the Latvian market. As a result, Norway-Latvia Development Fund invested \$216,580 for a 30% shareholding.

COMPANY PERFORMANCE

Before investing, Norway-Latvia Development Fund had prepared a detailed restructuring plan for Cesu Alus. Agris Lapinsh, Norway-Latvia Development Fund's investment manager, explains: *"We'd identified the key elements of the successful turnaround as (i) a new market-oriented management team; (ii) assistance and consultancy from industry experts; and (iii) the introduction of a non-executive board to improve governance, reporting and strategy."*

Post-investment, the firm obtained the involvement of reputable and proficient experts from the retail, finance and industrial sectors, along with representatives from the local municipality, to form the supervisory non-executive board of directors. Supported by Norway-Latvia Development Fund, with its network of contacts and ability to attract market-oriented experts, the non-executive board assembled an effective new management team. By developing a substantial long-term strategy and employing aggressive marketing policies, the new management team proved to be a vital catalyst in facilitating the turnaround of the company.

Following this, the overriding objective for Cesu Alus was to increase production and prolong the shelf life of its beer. With funding supplied by the British Executive Service Overseas, a consultant was hired from the British brewing industry to advise on production upgrades. Substantial investments were made as a result, involving the installation of vital new filtering systems and piping. At this point, a larger investor was needed if production was to be boosted sufficiently to tap into the full potential of Cesu Alus.

Cesu Alus

EXIT

By 1998 Olvi, Finland's third-largest brewery, was already pursuing acquisitions in the Baltic States, and was scouting Latvia for an established brewer of unpasteurised beer. Olvi first met with Cesu Alus in 1998, just six months after Norway-Latvia Development Fund's investment. By April 1999 a deal had been concluded: Olvi took a majority position in the Latvian brewery and paid Norway-Latvia Development Fund \$742,500 for its stake, which represented a 3.4-times cash multiple and an IRR of 297%.

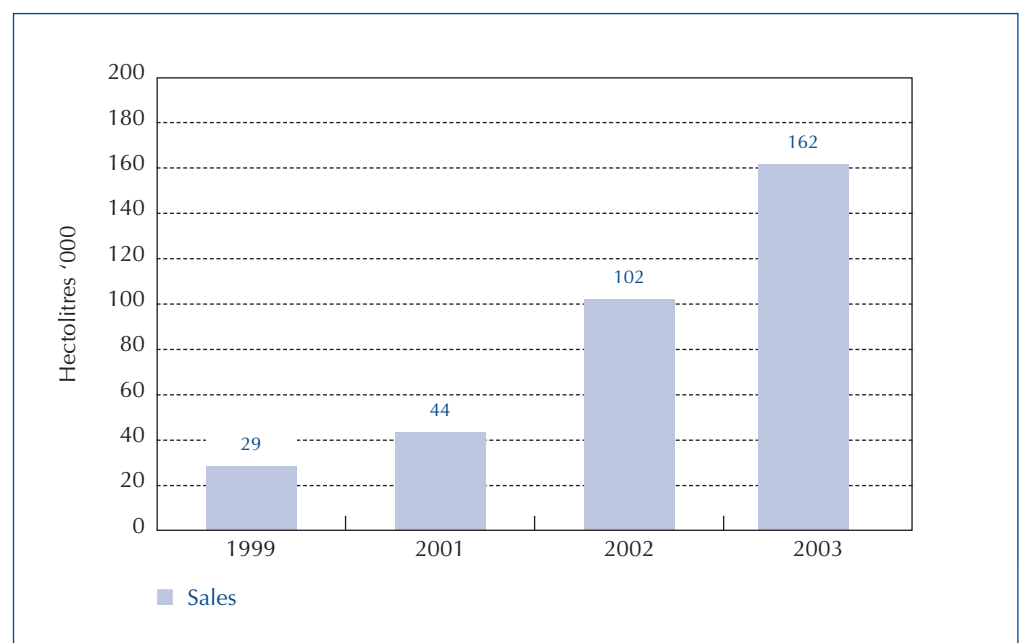
VALUE ADDED

Norway-Latvia Development Fund transformed Cesu Alus from an outdated enterprise into a fast-growing company by providing urgently needed investment capital along with marketing expertise and a strategic plan. This contribution led to the implementation of new, active management techniques that sped up development and made Cesu Alus the fastest-growing brewery in Latvia. The successful sale placed the business under the control of a long-term strategic investor, willing and able to build on the foundations that had been laid down.

Norway-Latvia Business Development Fund introduced a new market-oriented strategy for then loss-making Cesu Alus. By placing emphasis on active marketing policies, involving reputable experts and establishing a non-executive board of directors, the company was able to achieve a sustainable turnaround and develop into Latvia's second-largest brewery.

Post-exit, sales volumes shot up from 28,800 hectolitres in 1999 to 162,000 hectolitres in 2003. Market share has surged, topping 11% in 2003, when Cesu Alus became Latvia's second-largest brewery, and reaching 14% in early 2004.

Sales of beer post-exit



Polish IT hardware reseller turns into publicly listed blue chip systems integrator

- **Activity:**
Information technology
- **Country:**
Poland
- **Private equity investor:**
Enterprise Investors
- **Capital invested:**
\$4m
- **Type of deal:**
Partial buyout/
expansion capital
- **Initial investment:**
1994
- **Exit:**
1997

ComputerLand

In 1994, ComputerLand was a leading re-seller of brand name computer hardware to Polish corporations and institutional clients. Seeing the opportunities presented by a developing IT market, Enterprise Investors provided \$4m to buy out shares from angel investors and as new capital, taking 41% of the equity. After completing two large acquisitions, the company organised an oversubscribed and highly successful initial public offering (IPO) on the Warsaw Stock Exchange. Enterprise Investors exited during 1996 and early 1997 by selling large blocks of shares to eager public market financial investors, generating a return of 7.4 times cash invested and an IRR of 148%.

COMPANY BACKGROUND

Until 1993, ComputerLand focused on selling computer hardware to a range of clients in the Polish banking, healthcare, telecoms and public sectors. Looking to become a value-added provider to these clients, and to protect eroding hardware margins, the company transformed its approach to include sophisticated IT solutions, involving network integration, consulting, software design and implementation. The company grew from revenue of around \$16m, a modest net profit and approximately 70 employees in 1993, to revenue of \$64m, net profit of \$4.2m and 350 employees three years later. The company was – and still is – led by a highly dynamic president, Tomasz Sielicki, who was named entrepreneur of the year at the Davos World Economic Forum in 1999.

INVESTMENT

When Enterprise Investors became interested in ComputerLand, the company was well established, led by experienced management, and already enjoyed an excellent reputation among multinational clients for high-quality service. On a macro level, the Polish IT market was still very much in an evolutionary and fragmented stage, and set for sizeable growth. The company had few real competitors at this point. Foreign players were mostly interested in selling hardware, and therefore wanted to work with ComputerLand to deliver sophisticated services to corporate customers. Enterprise Investors seized the clear opportunity and took a 41% stake in the business in 1994 when it invested \$4m, of which \$3m went toward the share buyout and \$1m toward a capital increase.

COMPANY PERFORMANCE

Enterprise Investors' priority was to support management in the company's ambitious transformation plan. In addition, the investor helped establish a financial infrastructure that could support the planned rapid growth and at the same time increase the professionalism of the business. The implementation of a management option plan proved a highly successful initiative and the Polish Securities Commission later used it as a blueprint when it started regulating options. The company's initial public offering in 1995 was the first listing of a systems integrator in Poland and proved to be a landmark debut. Within six months the share price had risen by 350%, and ComputerLand received an award as the best performing company on the Warsaw Stock Exchange. In the first 18 months of Enterprise Investors' involvement – a period marked by high inflation – the company grew organically and through acquisition. Having raised approximately \$4m in additional funds through the listing, ComputerLand made further acquisitions, expanded its regional service coverage and took on larger long-term IT projects that required significant working capital. This enabled it to exceed the \$64m revenue mark in 1996, and to continue growing after Enterprise Investors' exit, reaching revenues of \$150m in 2003.

ComputerLand

EXIT

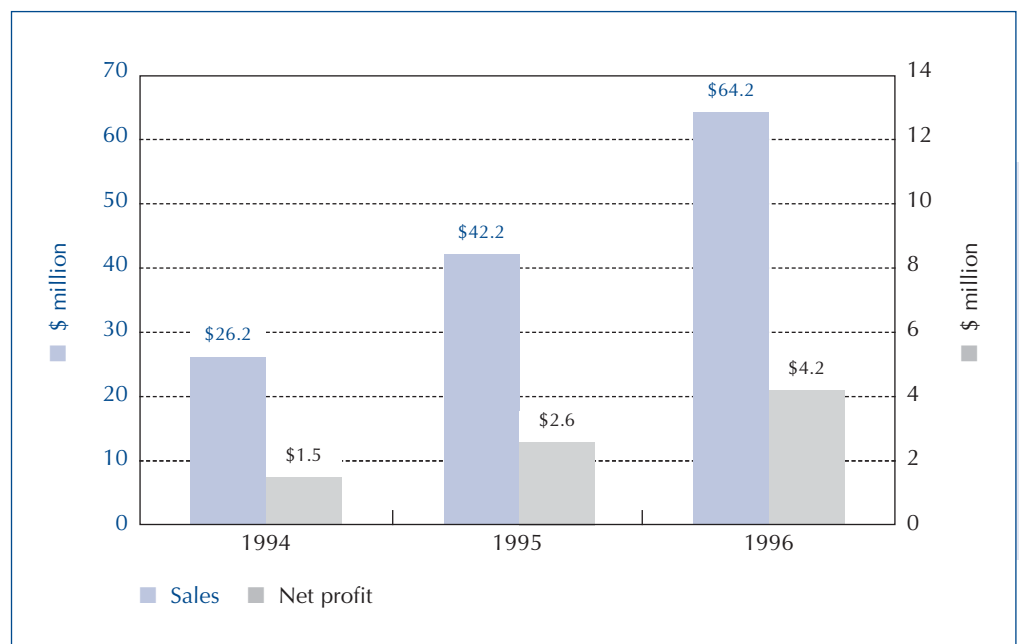
By mid-1996 the company's valuation was still rising, at one stage reaching a price-earnings ratio of 37, and institutional investor appetite for the business was noticeable. Enterprise Investors took advantage of these favourable conditions to sell its shares in the market over a nearly one-year period, fully exiting by early 1997. The exit generated \$30m in proceeds and represented a 7.4-times cash multiple and an IRR of 148%.

VALUE ADDED

Enterprise Investors played a key role in this investment, bringing its financial and M&A experience to the company. For more than three years Enterprise Investors participated in key strategic and financial decisions, helping complete several acquisitions and the IPO, which supported ComputerLand's success in becoming a leading Polish IT integrator. The management option plan that Enterprise Investors introduced encouraged the company's management to achieve spectacular performance. It also provided the Polish Securities Commission with a model on which to base the regulation it later introduced. The company continues to be highly regarded among public market investors today.

Transfer of know-how in financial and management disciplines and M&A helped enable ComputerLand to broaden its range of services and geographic coverage within Poland and to grow quickly as a market leader in systems integration.

Financial performance 1994-1996



Pioneering ISP transforms internet usage in the Czech Republic

- **Activity:**
Internet and telecommunications
- **Country:**
Czech Republic
- **Private equity investor:**
DBG Eastern Europe
- **Capital invested:**
€6.4m
- **Type of deal:**
Management buyout
- **Initial investment:**
1998
- **Exit:**
2000

Czech On Line

DBG Eastern Europe entered the Czech internet and telecoms market by purchasing Czech On Line from its Italian owner in 1998. Czech On Line successfully launched the country's first free internet service in 1999, fuelling a 250% increase in sales over the two-year investment period. A trade sale to Telekom Austria in 2000 reflected the firm's attractiveness for strategic buyers, delivering a 31-times cash multiple to the investor and a 566% IRR.

COMPANY BACKGROUND

When DBG Eastern Europe acquired the company, Czech On Line was already one of the Czech Republic's leading internet service providers. The company was well placed to capitalise on the imminent liberalisation of the local telecoms market. Its management used an innovative business model, based on low prices with yearly prepayments, which enabled the company to be cash positive even in a phase of rapid growth. With EBIT of €123,000 on €1.97m sales, Czech On Line's Italian owner sold the business to raise funds to launch Tiscali, an internet service provider in Western Europe.

INVESTMENT

DBG Eastern Europe realised the outstanding quality of the management team and was excited by the enormous potential Czech On Line represented in the fast-evolving internet and telecoms environment. The investor took control of 97% of the business, initially investing more than €5m in the 1998 management buyout; the CEO, Mariano Pireddu, bought the remaining shares. Additional growth financing followed throughout the holding period.

COMPANY PERFORMANCE

Czech On Line was generating cash at the time of investment, but also had a distinct lack of financial systems and controls. DBG Eastern Europe lost no time, nominating its investment director to become chairman of the board, hiring a CFO, and introducing proper reporting and budgeting processes.

The introduction of Czech On Line's free service model in August 1999 irrevocably changed the Czech internet market almost overnight, dramatically accelerating internet usage. Up to that point, the total number of ISP customers nationwide was estimated at 70,000. Between the launch of Czech On Line's service and the end of 1999, that company alone gained 100,000 active internet users and, according to World Bank data, the annual increase of internet users across the Czech Republic for that year hit 75%, compared to 33% in 1998 and 43% in 2000. As Jaroslav Horák, partner at DBG Eastern Europe and former chairman of the board of Czech On Line recalls: *"Day by day our most optimistic forecasts of customer growth were surpassed. We were happy not only because our company was doing well but because we felt we were making a difference by enhancing usage of a vital technology in this country."*

The free internet service model was largely financed through a revenue-sharing agreement with Dattel (later renamed GTS), a Prague-based alternative telecoms provider with a limited concession in central Prague.

Czech On Line

To fuel the rapid expansion, DBG Eastern Europe invested a further €1m in the business, raised an additional €3m in debt financing through Živnostenská Bank, and arranged lease financing. In 2003, three years after exit, the 220-employee business had secured 360,000 customers. It was also emphatically profitable, with EBIT of €2.7m on revenues of €18.5m.

EXIT

DBG Eastern Europe initiated a tender process to manage the unsolicited offers it received as Czech On Line's customer base grew, and in April 2000 the company was sold by auction to Telekom Austria for \$220m. The investment's overall cash proceeds for DBG Eastern Europe were around €200m, a substantial capital gain representing a 31-times cash multiple and a 566% IRR.

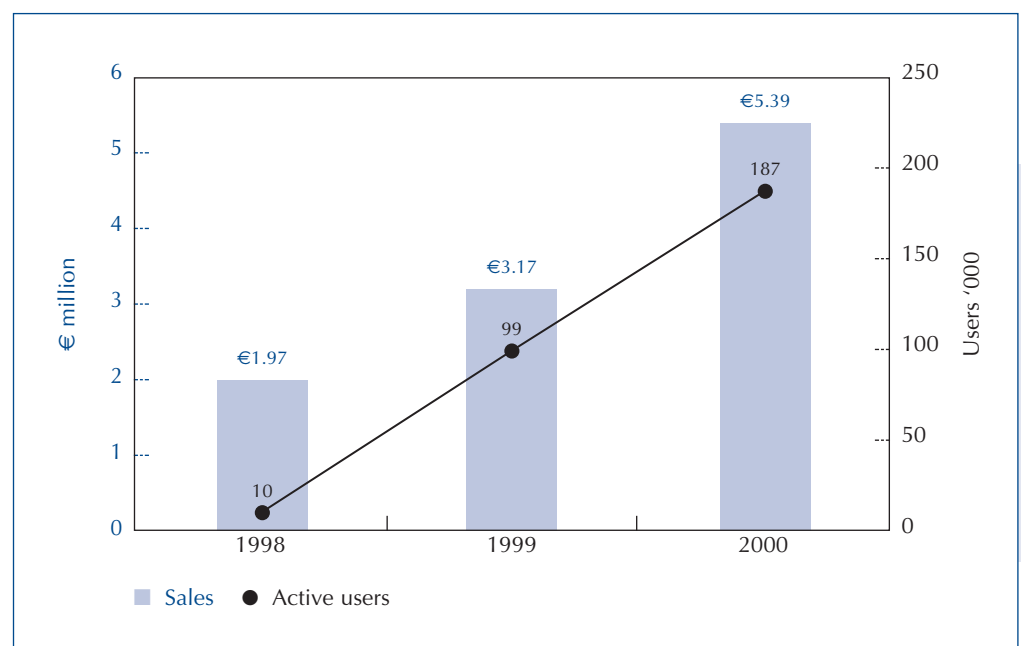
DBG Eastern Europe's involvement with the business enabled Czech On Line to become the Czech Republic's first free internet service provider (ISP), dramatically accelerating internet penetration across the country.

VALUE ADDED

DBG Eastern Europe provided and helped to negotiate funding that was essential if the company was to launch and establish its new product effectively. It also helped Czech On Line negotiate a key strategic alliance with Dattel, as well as attract KDD, a Japanese telecoms company providing international connectivity in internet telephony. The company's governance structure was overhauled, with a chairman of the board appointed, a CFO brought on board and the financial controls

needed to cope with rapid expansion implemented. The company's former CEO, Mariano Pireddu, sums up: *"One of the key factors behind our success was the contribution the chairman of the board made to the business in terms of expertise, ideas and contacts. Every time Czech On Line management needed help, he was on hand and the decision-making process was rapid – as it should be for telco/ISP industry operators."*

Sales and users 1998-2000



Food retailer captures southeast Poland and conducts successful IPO

- **Activity:**
Food retail and wholesale
- **Country:**
Poland
- **Private equity investor:**
Enterprise Investors
- **Capital invested:**
\$3.3m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1999
- **Exit:**
2003

Eldorado

Investing \$3.3m in funding, Enterprise Investors took a 24% stake in Eldorado in 1999. The company developed into a highly successful food retailer and the largest food distributor in southeast Poland. Exit was a two-stage process, with a successful initial public offering (IPO) on the Warsaw Stock Exchange in 2001 raising new capital of \$5m and allowing Enterprise Investors to sell half its stake. The subsequent secondary offering in June 2003 completed the exit, resulting in an overall cash multiple on the deal for Enterprise Investors of 2.8 times and a 28% IRR.

COMPANY BACKGROUND

Eldorado was already one of southeast Poland's largest food wholesale companies in the late 1990s. Management had taken some tentative steps toward developing a parallel food retail operation under the Stokrotka brand name by opening five retail stores, but the firm lacked funding to expand this side of the business. By 1999, the year of Enterprise Investors' share purchase, the company was on track to generate EBITDA of \$2.5m on revenues of \$98.5m, with a workforce of 865 employees.

Chairman Artur Kawa explains the decision to enter into negotiations with Enterprise Investors: *"We knew that there was a real opportunity to build the business in what was, at that time, a rapidly developing market for food retail and wholesale – however, we were short of working capital and needed to look outside the company."*

INVESTMENT

Enterprise Investors saw opportunities for Eldorado to develop a significant regional market position by opening a chain of retail outlets across southeast Poland, despite competition from larger format retail chains. The investor funded a \$3.3m capital increase in return for a 24% stake in Eldorado.

COMPANY PERFORMANCE

Enterprise Investors investment manager Ryszard Wojtkowski assumed chairmanship of the company's supervisory board. He worked closely with management during 1999 to put in place a growth strategy that balanced wholesale sector consolidation with retail sector growth. This meant demonstrating to management that it would gain premium value in the longer term by committing to the retail sector rather than by developing the wholesale business, despite the latter providing a safe short-term cash flow at that time.

As a result, Eldorado rolled out Stokrotka supermarkets across the region. The company was also diversifying in other ways, launching a chain of franchise grocery stores and establishing a network of cash-and-carry branches in major cities across southeast Poland.

By 2001 Eldorado needed additional finance to continue funding its expansion. Enterprise Investors and the founding shareholders decided to use the local public markets for an IPO to source the necessary capital. This also provided Enterprise Investors with a partial exit.

At the time of full exit in 2003, Eldorado was valued at \$40m. Revenues grew in that year to \$230m with EBITDA of \$7.5m, and the company's market position was undisputable, with 31 supermarkets, 284 grocery franchises and 16 cash-and-carry outlets serving 11,000 accounts. Employment had nearly doubled to 1,640 employees. Artur Kawa comments: *"The capital and know-how from Enterprise Investors came at the right time in our development. They helped speed up the growth of the company and transformed Eldorado into a more mature business."*

EXIT

The IPO in 2001 entailed significant challenges, not least because the Warsaw Stock Exchange was moribund at the time. As well, the company's corporate governance needed improving if it was to meet investors' transparency requirements. The listing proved successful, despite the scepticism of some market players and the lack of other IPOs in Poland in the previous 12 months. The initial public offering raised \$5m and enabled Enterprise Investors to sell half its stake in the company at the same time.

After demonstrating further strong and consistent performance to the market, Enterprise Investors realised a full exit via a secondary offering through the market to Polish institutional investors in June 2003. Since then, the company has continued to perform well, and in 2004 it was recognised as one of the top five leaders in corporate governance in the country.

Enterprise Investors achieved an overall investment multiple of 2.8 times on the transaction and an IRR of 28%.

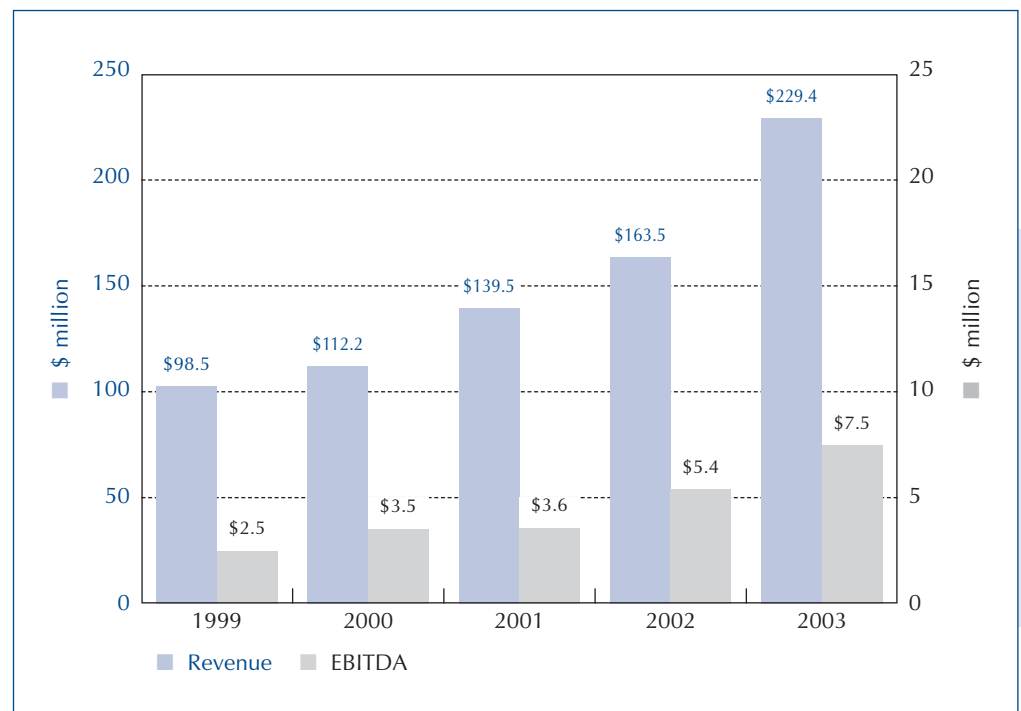
By injecting expansion capital and know-how at a crucial stage, Enterprise Investors helped Eldorado develop from a food wholesaler into a successful regional retailer, tripling EBITDA during the four-year investment period.

VALUE ADDED

Enterprise Investors played a critical role in persuading management to commit funds and resources to a rapid rollout in the food retail sector. It added value by introducing a specialist industry consultant from Great Britain to help implement the retail development. Enterprise Investors' attention to best practice in corporate governance and investor

relations gave the company a strong platform from which to build relationships with institutional investors, conduct a successful IPO in very difficult market conditions, and subsequently boost liquidity and the value of its stock.

Financial performance 1999-2003



Hungarian ISP exploits the internet boom to become market leader

- **Activity:**
Internet service provider
- **Country:**
Hungary
- **Private equity investors:**
Advent International; Equinox
- **Capital invested:**
\$3.2m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1998
- **Exit:**
1999

Elender Informatika

Advent International and Equinox injected \$3.2m into Elender in 1998. In just ten months, the investors took advantage of the feverish interest in internet-related businesses to rapidly create value for Elender and position it as an acquisition target for trade buyers. PSINet emerged as the preferred acquirer, paying \$33.3m for 100% control of the business in 1999 and generating a return to Advent and Equinox of 2.7 times cash invested and a 281% IRR.

COMPANY BACKGROUND

Originally focused on PC hardware retail and wholesale, Elender entered the Hungarian internet market in 1995. Identifying the internet service sector as a major growth opportunity, the company was, by 1998, one of the three largest domestic ISPs. At that point the business was performing well, with revenues of \$9.8m and EBITDA of \$200,000. However, its management knew that success in such a fast-changing environment was precarious. Further acquisitions were needed to defend the company's market share, and the development of nationwide coverage was a priority. Therefore, the decision was taken to seek private equity involvement in the business to secure capital and strategic resources.

INVESTMENT

In 1998, the worldwide internet boom was in the ascendant. Great growth potential was anticipated in Central and Eastern Europe, where companies were starting from a lower base than those in Western Europe and the USA. Advent and Equinox were attracted by the opportunity Elender presented and by the management's determination to base its offering around quality of service and customer relations. Valuing the company at 3 times sales, a standard multiple for this sector at the time, Advent invested \$2.2m for an 18% stake in the business. Equinox, Advent's local affiliate, acquired an additional 8.4% for its \$1m investment, and the two investors took one seat each on the company's board.

COMPANY PERFORMANCE

At the time of the investment in December 1998, Elender had 30 employees based in Budapest and needed to pursue and secure substantial contracts with business customers. The challenge was to build on the company's strong position in order to grow the business, consolidate market share ahead of its rivals, and diversify its service offering. The investment capital was immediately put to work, with Elender acquiring a number of ISPs in 1999, including the Hungarian franchise partner of US-based CompuServe. Advent and Equinox knew that quality financial systems, processes and reporting structures had to be in place, and a new finance director was recruited to spearhead this function. By the time the sale to PSINet was agreed in September 1999, Elender had grown its subscriber base from 12,000 to 20,000 customers, becoming the second-largest ISP in Hungary and, in the process, a well-known national brand.

Post-exit, despite the dotcom market crash and PSINet's subsequent chapter eleven filing, Elender continued to perform well. By 2003 its annual revenues were \$25m with EBITDA of \$3m, a 2.5 times and 15 times increase respectively from 1998. The company continues as a top-ranked Hungarian ISP.

Elender Informatika

EXIT

Almost immediately after the investment was concluded in December 1998, the first potential buyers approached Elender. Within less than a year, the company had become one of Hungary's most attractive media sector investment targets and was being closely observed by around 20 potential national and global buyers. Negotiations eventually began with PSINet, then one of the largest independent international business ISPs, and in September 1999 a sale price of \$33.3m was agreed, giving PSINet 100% control of the company. The exit represented a 2.7-times cash multiple and a 281% IRR for both investors.

VALUE ADDED

Advent and Equinox ensured that the business met all the goals agreed with Elender's management, positioning the company to take full advantage of the upsurge of interest in Hungarian ISP opportunities. The main contribution was to transform an entrepreneurial business into an enterprise that could manage increased growth and diversification. In addition, the strategic shift engineered by both investors during their holding period ensured a focus on core business customer development, a key value driver. The investors' execution of the exit process was also crucial, providing themselves and management with an attractive return without disrupting the flow of business. The foundations put in place by Advent and Equinox proved successful, as today the company remains a growing and profitable market leader.

Capitalising on the surge of interest in Central and Eastern European dotcom opportunities, this investment turned Elender into Hungary's lead internet service provider (ISP), building sustainable market share during a volatile era.

Early gain in the international mobile payment market for Hungarian start-up

- **Activity:**
Software development
- **Country:**
Hungary
- **Private equity investors:**
Euroventures Hungary;
Fast Ventures BV
- **Capital invested:**
€1.4m
- **Type of deal:**
Start-up funding
- **Initial investment:**
2002
- **Exit:**
2004

Enigma

In 2002 Enigma's founder, Balázs Inotay, was looking for development capital to market a mobile commerce payment solution he had developed. Euroventures committed €1m to the business in return for 45% of the equity, introduced Enigma to potential bank-sector clients, and brought in a key senior executive from Fast Ventures. On exit in January 2004, Euroventures achieved a cash multiple of 2.6 times and an IRR of 87%. Fast Ventures exited at the same time, realising a 2-times cash multiple and a 70% IRR.

COMPANY BACKGROUND

Enigma was founded by Balázs Inotay, a serial entrepreneur. By 2002, Mr Inotay and his team had developed a working prototype of a secure mobile payment system. With this process successfully completed, funding was needed to bring the system closer to commercialisation.

INVESTMENT

For Euroventures, Enigma's principal attraction lay in its founder's successful track record. Balázs Inotay had already developed a student chip card system as well as two successful proprietary loyalty card schemes for the Hungarian market. Furthermore, Euroventures was attracted to Enigma by the considerable potential of a secure payment system targeted at rapidly developing mobile telephony services.

As Enigma did not generate sales revenues at the time of the deal negotiations, Euroventures calculated its valuation accordingly, applying a moderate premium to the entrepreneur's cash contribution over the preceding 12 months that was used to fund the prototype development. The subsequent deal saw Euroventures commit €1m for a 45% stake in the business. Fast Ventures invested €400,000 ten months later, valuing the company at a 40% premium to Euroventures' price.

COMPANY PERFORMANCE

Euroventures put great hopes in the commercial potential of Enigma's product, but also knew that success depended on getting the right mix of skills in the management team, particularly in such areas as client development, strategic planning and financial controls. Euroventures quickly filled the financial controller position with its own senior financial adviser. Finding the right fit for business development took longer. Eventually Attila Varkonyi was attracted to join Enigma's board. A Hungarian national, Varkonyi had played a key role in building SAP in the USA from start-up into a \$100m business. As the co-founder and chairman of Fast Ventures, a Budapest and Amsterdam based venture capital firm that was financing start-ups in Hungary, he was also well positioned to forge links with potential business partners and clients. Fast Ventures' investment in Enigma took place at the time Mr Varkonyi joined the board.

The first stage in the product rollout was to concentrate on the Hungarian market. The initial sales breakthrough came already in 2003, with two GSM mobile operators buying Enigma's services and products. By 2003 there was also notable international interest in mobile payment solutions. Enigma's safe payment technology, which offered GSM network providers, banks and service providers a means of delivering secure mobile commerce services, was not tied to a specific device or proprietary technology and would work across multiple networks and mobile handsets.

By late 2003, the company had grown to a team of 30-plus and revenues had reached €1m in the third quarter. The following spring Enigma launched an open mobile payment system for the Hungarian market, in association with GSM providers T-Mobile and Pannon GSM, as well as with Budapest Bank, a subsidiary of General Electric. The system enabled any financial institution to offer its services on a mobile telephone platform without the need to modify its IT standards.

EXIT

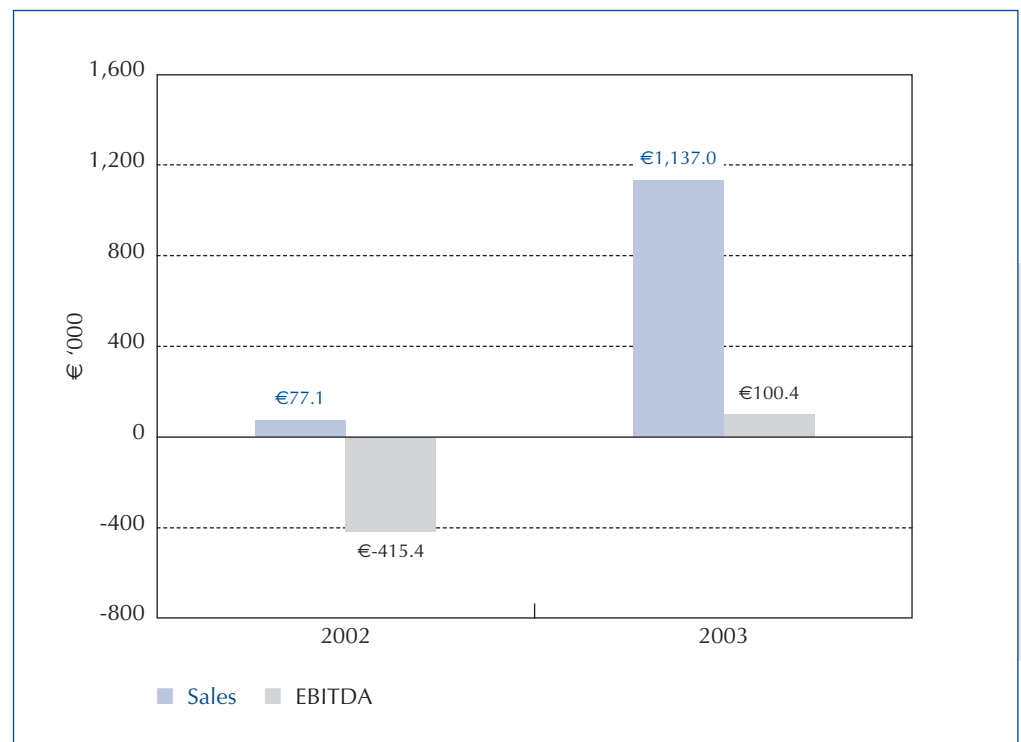
Both Euroventures and Fast Ventures sold their positions in January 2004 after receiving an attractive offer from a financial investor in late 2003. For Euroventures, the exit represented a cash multiple of 2.6 times and an IRR of 87%. Fast Ventures realised 2 times its investment and an IRR of 70%.

Euroventures' investment in Enigma gave the company the funding and access to client contacts the firm needed to commercialise its revolutionary mobile services software solution.

VALUE ADDED

Euroventures added value in three key ways: first, as strategic adviser, it advised the company on its business model at the product commercialisation stage. Second, it contributed its experience and valuable contacts within the Hungarian banking community to gain product acceptance. Third, by introducing Mr Varkonyi from Fast Ventures to the business, Euroventures ensured that the company would have a highly experienced and well-respected business development executive to take it forward onto the international stage.

Financial performance 2002-2003



Local start-up develops into global, Nasdaq-listed transaction processing leader

- **Activity:**
Financial services, software development
- **Country:**
Hungary
- **Private equity investors:**
Euroventures Hungary; Hungarian-American Enterprise Fund; Innova Capital; Advent International
- **Capital invested:**
\$8.8m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1994
- **Exit:**
Partial and full exits from 1997

Euronet Worldwide

Euronet's progress, from start-up to international leader, initially depended on its ability to expand sales volume aggressively in key regional markets. Euroventures and the Hungarian-American Enterprise Fund (HAEF) each invested \$1m in 1994. Two years later, Innova Capital and Advent International (with its related parties) invested a total of \$6.8m in the company to expand its offering into the Polish market. On full exit in 2000, Euroventures achieved an IRR of 125% and a total cash multiple of 11.3 times. In partial exits during the 1997 initial public offering (IPO) and in subsequent public market sales, HAEF, Innova and Advent realised cash multiples of 7.8, 10.3 and 5.2 times on their respective divestments. Innova and HAEF retain stakes in the company.

COMPANY BACKGROUND

In 1995, as a 12-person business, the scope of the company's ambitions was already apparent, underlined by its subsequent change of name from "Bank Access 24" to "Euronet Worldwide". As Europe's first independent automated teller machine (ATM) operator, Euronet knew it had a chance to capitalise on its first-mover advantage to become a dominant regional player, as local economies shifted from cash to plastic-based transactions and the region's consumers began using banking services on a mass scale.

INVESTMENT

In 1994, Euroventures invested \$1m for a 25% stake in the business. Mike Brown, the company's founder, invested another \$1m in cash and \$1m in sweat equity, and HAEF committed \$1.05m in the same round. A mix of USA-based associates and private individuals held the remaining equity. In 1996, having persuaded Euronet that neighbouring Poland presented an equally exciting opportunity, Innova and Advent (with its related parties) each invested \$3.4m for a combined 36% stake to help finance Euronet's Polish expansion. Substantial growth potential was clear in Poland, where at that time just 40 ATMs were servicing a population of 38 million.

COMPANY PERFORMANCE

Immediately after Euroventures' and HAEF's investment, the priority was to develop relationships with local Hungarian banks as well as with Visa and MasterCard. With these deals secured, Euronet's first ATM went live in Hungary in June 1995. From that point the rollout was accelerated and, with Innova and Advent on board, ATM installations began in Poland, followed by Germany, Croatia and the Czech Republic. In addition to operating its own independent network of ATMs, Euronet embarked on a plan to outsource the management of banks' ATM networks. This strategy also proved successful, and one of its first such contracts was with the Halifax in the United Kingdom.

From the beginning, the investors had been targeting a Nasdaq listing. A successful IPO was completed in 1997, with the company valued at \$180m, raising \$48m in new funding for continued ATM network expansion and strategic acquisitions. In 1998 Euronet completed an international high-yield debt offering, raising an additional \$81m. Later that year it acquired USA-based Arksys, a company developing electronic payment and transaction solutions software.

Euronet's revenues grew dramatically during the expansion years. Cash profitability was achieved by late 2002, and EBITDA of \$48m is forecast on revenues of \$362m for 2004. Euronet Worldwide is now established as a global industry leader in secure electronic financial transaction solutions. It operates one of the largest independent pan-European ATM networks, with more than 162,000 point-of-sale terminals across 68,000 retailers in Europe, Asia-Pacific, and the USA.

Euronet Worldwide

Euronet has also moved convincingly into electronic top-up transactions for mobile phone users, having acquired e-pay and Transact in 2003, two of the largest top-up providers in Great Britain, Australia and Germany.

EXIT

Euroventures exited from 45% of its position in the 1997 Nasdaq IPO, making \$5.7m, five times its original investment. It exited the remainder in March 2000, generating an additional \$5.6m. Overall, Euroventures achieved an IRR of 125% and a total cash multiple of 11.3 times. Innova, Advent and HAEF each exited partially in the IPO and sold additional shares in further partial exits through the public market. Advent realised a 5.2-times multiple on its investment and an IRR of 231%, and fully exited the company. Innova exited 23% of its stake in the IPO, realising an 8.6-times cash multiple, and sold a further 30% of its position, yielding an average cash multiple for divestments to date of 10.3 times. HAEF has realised a 7.8-times cash multiple and an IRR of 114% on its partial exits to date. Both Innova and HAEF retain stakes in the business.

A venture capital syndicate backed a Hungarian start-up, supporting it through a rapid period of expansion, including a Nasdaq listing, to become a global industry leader in secure electronic financial transaction services and Europe's largest independent provider of ATM services.

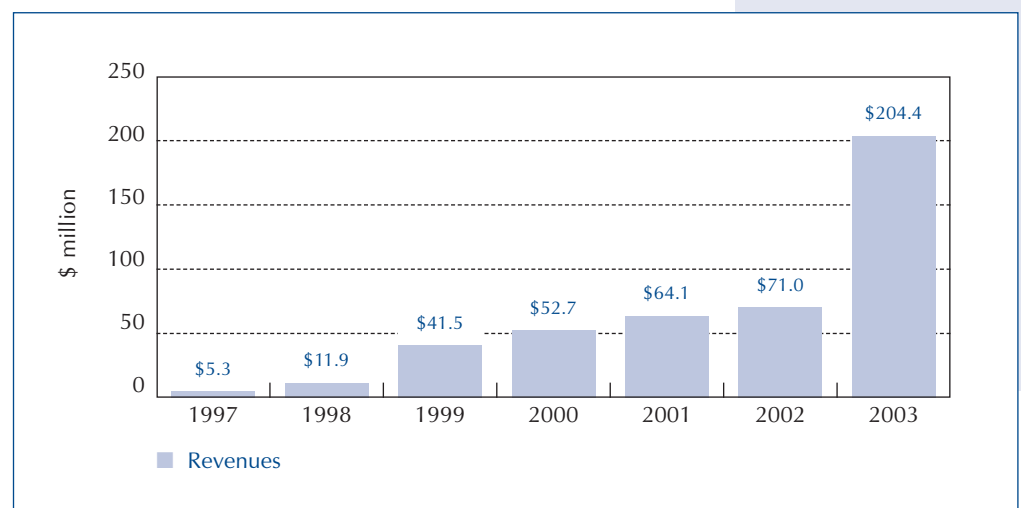
VALUE ADDED

In its launch period, Euronet's survival depended on winning credibility with both local and international banking communities, and it was here that the investors' contacts and experience proved invaluable. Building a regional presence hinged on time-to-market, and the investors helped push the expansion strategy forward as quickly as possible. The investors were a driving force behind the IPO and the follow-on bond issue, which brought financing at a crucial time in Euronet's regional development. The strength and transparency of Euronet's financial reporting and controls

underpinned the IPO's success, and the investors played a key role in helping management put these in place.

The investors exercised strategic oversight at board level, in particular where rollout and funding objectives were concerned. They also played an important role in helping with recruitment and securing relationships with banks. Innova, Advent, and HAEF all maintained seats on the board of the public company for some years after the IPO.

Revenues 1997-2003



Financial structuring achieves multiple exits in cash-generative business

- **Activity:**
Optical disk replication
- **Country:**
Czech Republic
- **Private equity investors:**
Winslow Partners;
Patria Asset Management;
Croesus
- **Capital invested:**
€7.5m
- **Type of deal:**
Leveraged buyout
- **Initial investment:**
1997
- **Exit:**
1999 (Patria),
2000 (Croesus),
2002 (Winslow, partial)

GZ Digital Media

In 1997, GZ Digital Media was a profitable business in an unpredictable sector. Winslow Partners believed in the company and led a consortium with Patria Asset Management and Croesus to invest €4.2m in a leveraged transaction in return for a 94% stake in the business. By the end of 2003, GZ Digital Media had firmly established itself among key western clients and increased revenues and EBITDA by over 70%, in an industry that had experienced annual price declines of 10-15%. Croesus and Patria exited the business in 1999 and 2000 respectively, generating IRRs of 40% and 45%. Winslow Partners invested an additional €3.3m in 2000 to increase its stake in GZ Digital Media, and received a cash distribution of €15m from a 2002 leveraged recapitalisation of the company.

COMPANY BACKGROUND

GZ Digital Media (GZ) began life in the 1950s as a monopoly supplier of vinyl records to the Soviet block. The company subsequently expanded into music cassettes, offset printing, plastic box moulding, and eventually CD replication in 1990. GZ had high technical skills and an excellent cost structure, but its growth prospects were limited by client perceptions of Eastern Europe as a region with substantial piracy risk. Nonetheless, by 1997 GZ was one of the leading media replicators in the region. During 1996-97, the company was the target of several hostile takeover attempts following its flotation through the Czech voucher privatisation programme. GZ's CEO realized the company needed a reputable financial partner to achieve ownership stability and to expand in western markets.

INVESTMENT

Encouraged by GZ's solid CEO, its track record of good cash flow generation and the attractive entry valuation, the consortium decided to purchase the business from the company's 94% owner, a Czech insurance fund. The deal saw Winslow, Patria and Croesus each invest €1.4m in a local acquisition vehicle used for the purchase. The capital structure consisted of €2.8m in common equity, €1.4m in preferred equity, and a €10.9m senior debt facility provided by Erste Bank's acquisition finance group. The deal involved pioneering work navigating local financial assistance restrictions, launching tenders for public minority shareholders, and merging the special purpose acquisition vehicle into GZ.

COMPANY PERFORMANCE

Winslow Partners actively worked with GZ's CEO to develop and implement a sales and marketing strategy, systems for product security, and improved financial controls. Shawn Johnson, Winslow's investment manager, sums up: *"We knew the company could be 15-30% cheaper than the competition and take market share if we were able to gain the trust of a few leading players in the music and software industries."*

Milestone objectives included the recruitment of a senior industry adviser. In late 1998 the former CEO of Sonopress, a Bertelsmann subsidiary, joined Winslow Partners and worked closely with GZ's CEO. The firm introduced new reporting systems, recruited a new CFO, and opened sales offices in Germany, the UK, and the US. With enhanced credibility, the company attracted prestigious international clients including Microsoft, BMG, EMI, Compaq and HP.

From its roots as a supplier to the Central and Eastern European market, by 2004 GZ was a pan-European player with 750 employees, €36m in annual revenues and EBITDA of over €8m. The firm achieved volume growth in a stagnant industry, increasing production from 30 million CD units in 1997 to over 100 million units in 2003.

GZ Digital Media

EXIT

Each of the original investors had different exit horizons. Croesus's stake was bought out in 1999 via a recapitalisation for €2.8m, which represented a 2-times cash multiple and a 40% IRR. Patria exited in 2000 when its stake was purchased by Winslow Partners and GZ itself for €4.9m, achieving a 3.6-times cash multiple and a 45% IRR.

The company's cash flow from 1998 to 2002 had been sufficient to retire the initial acquisition debt, buy back some of Patria's shares, and repurchase most of the 6% stake held by minority shareholders through public tender offers.

In October 2002, Winslow organised a significant leveraged recapitalisation of GZ in cooperation with Erste Bank, arranging €20m of senior and mezzanine debt to finance a distribution to shareholders. Winslow received an €8m payout (5.7 multiple) on its original 1997 investment of €1.4m as well as a €6.9m payout (2.1 multiple) on its subsequent €3.3m investment, and retained a 46% stake in GZ. Another significant recapitalisation is planned for 2005, and Winslow continues to be a shareholder at the time of writing.

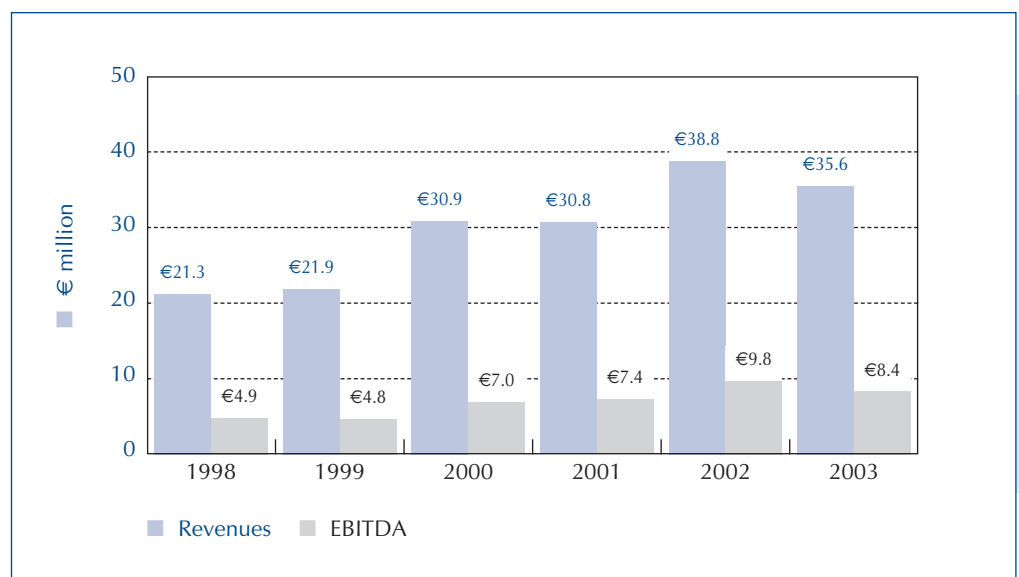
This buyout transaction helped develop one of Central and Eastern Europe's leading CD replicators into a major European industry player. Strong underlying cash flows and sophisticated financial structuring by the investors, including the innovative use of multiple recapitalisations, allowed for profitable exits in an industry with difficult trade sale and IPO prospects.

VALUE ADDED

Winslow Partners quickly got management focused on implementing new operating systems that allowed GZ to join the top tier of preferred European industry suppliers. By steering the company through a crucial transition phase, overhauling existing financial controls and bringing in an experienced adviser to the CEO, Winslow supported the company's move into higher-value, lower-risk business areas.

Throughout the investment, by using its financial structuring skills in an innovative way and tailoring them to local conditions, Winslow ensured the investors achieved a succession of profitable exits in an industry with limited trade sale and IPO exit possibilities.

Financial performance 1998-2003



Innovative Polish medical product achieves 50% US market share

- **Activity:**
Medical instrument manufacturing
- **Country:**
Poland
- **Private equity investor:**
European Renaissance Capital LP
- **Capital invested:**
\$3m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1997
- **Exit:**
2001 (partial)

HTL Group

Having invented and patented a single-use blood-sampling lancet, the management of HTL Group needed capital to boost production capacity and accelerate marketing. European Renaissance Capital identified HTL as a successful niche player with the potential to develop worldwide sales of its patented new product. Renaissance invested \$3m in the company, taking 30% of the equity. The funding enabled the company to push convincingly into the US and European markets and to refine its cost-based competitive advantage. Partial exit in 2001 gave Renaissance a 3-times multiple on invested capital and a 40% IRR.

COMPANY BACKGROUND

High Tech Lab (HTL) was initially active in the production and sale of pipettes, i.e., precision liquid measuring equipment for medical, clinical and laboratory users. Subsequently, the founder and two of his colleagues invented a lancet device, trademarked Medlance, for single-use capillary blood sampling. By December 1996, HTL had developed a fully-automated production model for the new needle and blade lancets, while continuing to manufacture and market pipettes. In 1997, the 180-employee business had EBITDA of \$500,000 on revenues of \$6m.

INVESTMENT

The initial development of the lancet device had been funded from working capital and loan facilities. HTL's management knew that follow-on funding was required if the lancet device was to be successfully commercialised and marketed worldwide. Renaissance was impressed by HTL's experienced management team, which had proved itself in the pipette business. It was also clear that the new lancet device had the potential to generate substantial global sales, and importantly, it had been properly patent protected. With 95% of total production destined for export to Western Europe and the USA, Renaissance realised HTL would also be extremely cost competitive. As a result, Renaissance invested \$3m in the company in December 1997, taking a 30% stake in the equity.

COMPANY PERFORMANCE

The investment capital was put to work, repaying loans and funding accelerated investment in marketing as well as modifications to production facilities that needed to comply with industry standards. In addition, Renaissance convinced HTL's founder to identify and appoint a new CEO to manage day-to-day operations. Renaissance investment manager Witold Grabowski recalls that initial difficulties centred on introducing the new product to market: *"There were, at that early stage, some major false starts. A key distributor who had promised to take most of the stock failed to comply with the agreement."* HTL needed to act quickly, and Renaissance worked with management to identify a suitable US customer and sign a replacement contract.

In 2001 the firm split its activities in two. PZ HTL, based in Warsaw, focused on pipette manufacturing, while HTL-Strefa, based in the Ozorków free economic zone near Łódź, handled the production of lancet and laboratory disposables. This twin-production capability gave the firm much greater product focus. In addition, it gave HTL-Strefa full income tax immunity, significantly adding to the company's competitive cost advantage in international markets. With the split in HTL Group's activities, the shareholder agreement was modified, giving Renaissance a 30% stake in each of the two companies.

EXIT

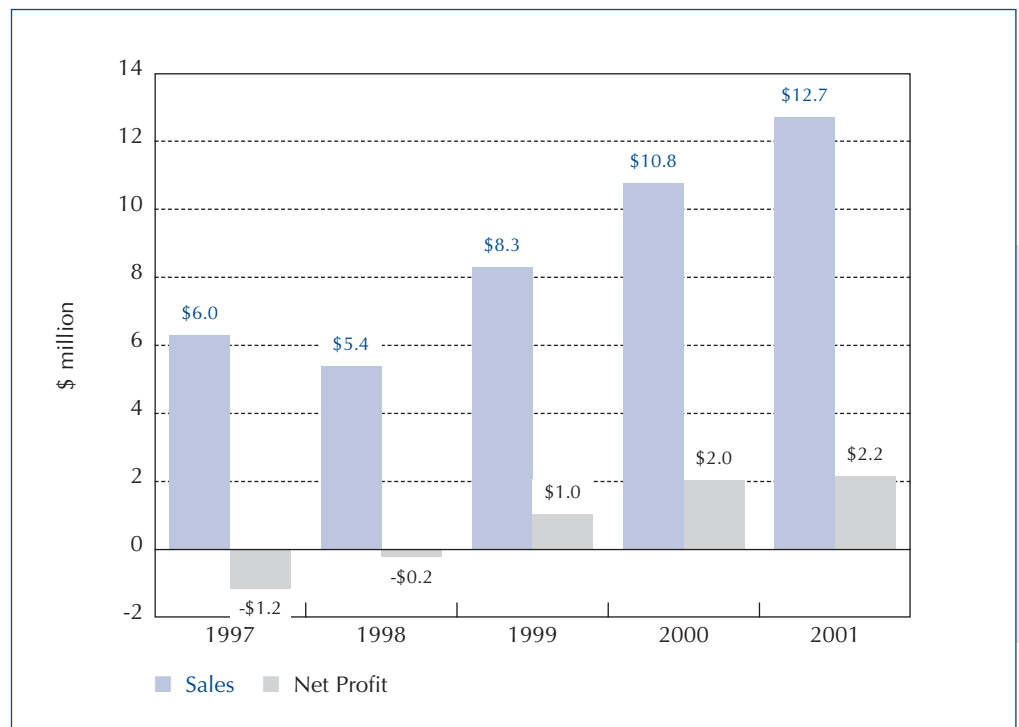
By December 2001, HTL Group had EBITDA of \$5m on annual sales of nearly \$13m, with a total staff of 340. That month Renaissance made a partial exit, selling two-thirds of its total shareholding to HTL Group's management. The agreed sale price of \$6m represented a 3-times multiple on its original investment and an IRR of 40%. Both companies subsequently increased their global market share, controlling over 50% of the US lancet market and almost 10% of the worldwide medical pipettes market by 2004. At the time of writing Renaissance continues to hold a 10% stake in each of HTL Group's twin companies.

This investment effectively commercialised the new medical technology of an established Polish pipette producer, enabling it to secure global market share and significantly increase both revenues and profits.

VALUE ADDED

Renaissance helped to identify and appoint the new CEO, whose involvement in the business proved to be a key success factor. At a critical point, when the company's principal distributor reneged on its agreement, Renaissance helped HTL's management identify a US company and negotiate a deal thanks to which it became a new key customer. Overall, Renaissance supported various measures that enabled the HTL Group to leverage its cost-based competitive advantage to gain significant international market share.

Financial performance 1997-2001



MBI creates Central and Eastern European transportation market leader

- **Activity:**
Transportation and logistics
- **Country:**
Hungary
- **Private equity investors:**
DBG Eastern Europe; BA Capital Partners Europe
- **Capital invested:**
€13m
- **Type of deal:**
Management buyin
- **Initial investment:**
1998
- **Exit:**
2002

Hungarocamion

The 1998 management buyin of Hungarocamion transformed a poorly managed transportation firm into Central and Eastern Europe's largest road services company. The investors, DBG Eastern Europe and BA Capital Partners Europe (Bank of America private equity), believed Hungarocamion could capitalise on growing market demand as manufacturing businesses began relocating to Central and Eastern Europe. The result was a successful trade sale exit four years later, with total proceeds of €41.4m and a cash multiple of 2.8 times for DBG Eastern Europe and 3.5 times for BA Capital Partners Europe.

COMPANY BACKGROUND

Although Hungarocamion was one of Hungary's largest trucking companies at the time of investment, its business was in rapid decline. Old-fashioned management attitudes and prolonged under-investment had left it ill equipped to survive in what was fast becoming a competitive European marketplace. With no financial resources to purchase new trucks or maintain existing ones, its fleet of 1,200 vehicles was at risk of falling into obsolescence. In addition, the old vehicle stock made obtaining international transport licenses increasingly difficult. In 1998 the company was generating net losses with revenues of €86m and a 3,000-strong workforce.

INVESTMENT

Already undergoing privatisation for several years, by 1998 Hungarocamion needed structural and financial reorganisation, with a priority on cost reduction and fleet modernisation. Having been alerted to this situation by Ventura, a local management team, DBG Eastern Europe, BA Capital Partners and Ventura made a joint bid for the company. They secured 88% of the equity for a total €13m investment, with DBG and BA Capital Partners each providing €6m and Ventura €1m. The employees held the balance of the shares. The acquisition from the Hungarian State Privatisation Agency was based on the investors' firm commitment to modernise and support the business long-term.

COMPANY PERFORMANCE

With the transaction completed, the priority was a major management reshuffle to replace Hungarocamion's incumbent senior managers with a new team, incentivised by equity options. Supported by a capable and experienced middle management group, the new CEO, a member of the Ventura team, led the company through a multi-faceted restructuring programme to a successful exit. The investors took full control of the five-seat board and created a new corporate governance structure that ensured smooth and consensus driven decision-making.

The company's operations were streamlined into four key areas: international transportation, freight forwarding, logistics, and customs/border services. The changes introduced included a comprehensive new fleet replacement involving over 1,000 trucks being substituted with modern stock under an expansive lease finance programme. A new Oracle based state-of-the-art enterprise resource planning system was installed to dramatically improve cash-flow management, and a global tracking management IT system was introduced to provide up-to-the-minute information on truck movements. On the financial side, legacy contingent liabilities were covered and a sophisticated risk hedging system for diesel fuel purchases developed. As well, non-core assets were divested to raise cash for investment in the core business. To help the restructuring process, external specialists were brought in, including a Chicago-based IT consultancy and a former Kuehne & Nagel senior executive.

Hungarocamion

By 2002 Hungarocamion's workforce had been reduced to 2,700 employees, over 60% of whom were drivers – compared to about 45% when the company was acquired. Efficiencies were greatly improved, with annual average truck kilometres up by 50%. Revenues had increased by 40% to €120m, and thanks to overhead reductions, EBITDA surged by nearly 100% to €21.5m. All Hungarocamion's business lines were cash-flow positive and the company, now the largest of its type in Central and Eastern Europe, was strongly positioned to compete anywhere in the European Union.

EXIT

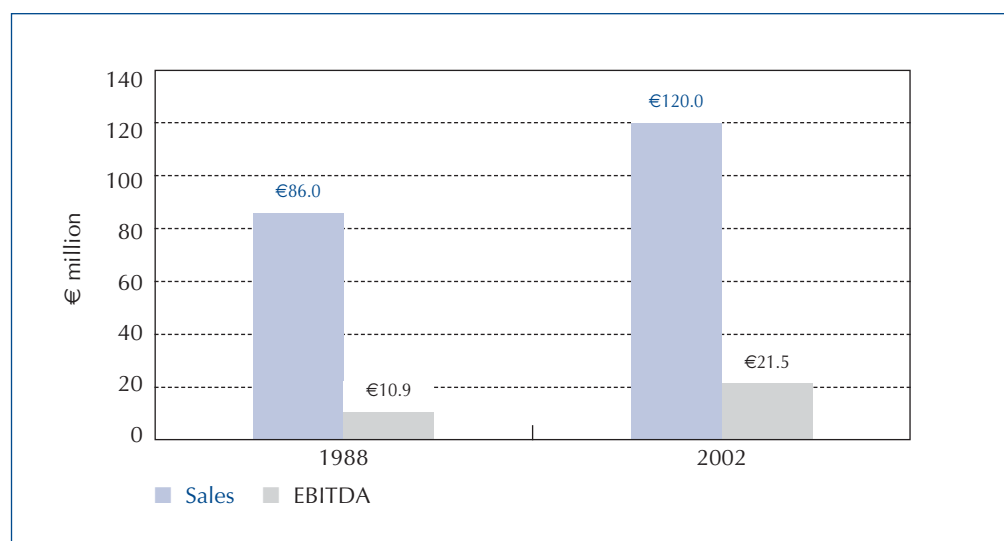
Successfully restructured, Hungarocamion had become an attractive acquisition target for large pan-European transportation companies. After some negotiations with potential acquirers, Volan Tefu, the second-largest Hungarian trucking company, emerged as the preferred buyer. As there were different preferences with regard to timing of the exit, primarily because of the run-up to European Union accession and various valuation risks encountered in the proposal presented by the buyer, DBG Eastern Europe sold its stake to BA Capital Partners prior to a subsequent full sale of the company to Volan Tefu. The final sale value was €41.4m, giving BA Capital Partners an IRR of 38.5% and a 3.5-times multiple on investment, while DBG Eastern Europe earned an IRR of 28% with a 2.8-times cash multiple.

Financial backing and skilful turnaround management transforms a declining former state-owned Hungarian transport company into a growing market leader, generating strong revenue and earnings growth.

VALUE ADDED

The investors were closely involved in every aspect of Hungarocamion's dramatic transformation, from providing financial backing to injecting sound management. Key areas were (i) promptly putting in place a new fleet replacement programme; (ii) streamlining the company's operations into four business lines; (iii) pushing through a major front and back office IT implementation; and (iv) aligning company strategy with changes in the external market, especially in the areas of tariffs, oil price fluctuations and regulatory developments. As Istvan Denes, Hungarocamion's CEO, sums up: "The owners' support was crucial in achieving our objectives and it was not based only on simple faith in our abilities, but rather on constant monitoring of the various projects and a deep understanding of what was required."

Financial performance 1998-2002



A buyout and restructuring helps niche producer diversify customer base and drive exports

- **Activity:**
Refractory ceramics manufacturing
- **Country:**
Czech Republic
- **Private equity investor:**
Czech Venture Partners
- **Capital invested:**
€1.25m
- **Type of deal:**
Management buyout
- **Initial investment:**
1995
- **Exit:**
2003

Keravit

Keravit, a specialist ceramics manufacturer, reached a critical juncture in 1995. It was over-reliant on its parent company for almost all of its business and faced divestiture. Czech Venture Partners took a 48% stake in the business for a small equity investment and provided an additional €1.25m subordinated loan for a management buyout. By 2003, following a market and product repositioning, Keravit had become the number two industry player in the Czech Republic. Exit was by sale to a financial investor and achieved total returns for Czech Venture Partners of €6.75m, representing a 5.4-times cash multiple and a 31% IRR.

COMPANY BACKGROUND

Keravit is a specialist manufacturer of refractory ceramics that was 100%-owned by Vítkovice, one of the Czech Republic's largest engineering companies. Focused entirely on one product and with an order book 85%-reliant on Vítkovice, Keravit was in a vulnerable position when its parent initiated a major restructuring in 1994. Already run as a cost centre, with all profits directed back into Vítkovice, it was clear to Keravit's management that the company would shortly be sold off as a non-core business. As it was a zero-profit enterprise, no banks were prepared to finance management's planned buyout. Without external investment, however, the future for the company and its 260 employees looked bleak.

INVESTMENT

Czech Venture Partners was convinced that there was a real opportunity to expand Keravit's market share in the Czech Republic and internationally. The company had the potential to become a major supplier to the metallurgy, foundry, cement and lime, heat and power generation, and construction industries. Provided that the company could cut production costs, reduce its dependence on Vítkovice, diversify production and improve marketing, Czech Venture Partners was sure that Keravit could significantly undercut international competitors. The deal agreed in mid-1995 saw the company's four managers invest €3,500 for a 51% stake. Czech Venture Partners invested a similar sum for a 48% equity stake and provided a €1.25m subordinated loan, which was to be swapped for equity if Keravit failed to perform in line with the agreed business plan. Vítkovice retained a 1% equity stake in the firm.

COMPANY PERFORMANCE

At the outset management was reluctant to diversify its customer base and relinquish its dependence on Vítkovice, which it saw as a source of security. Czech Venture Partners finally persuaded management that the strategic repositioning made sense. Significant time was also invested in developing the product line and a new pricing strategy, as well as identifying new customers, markets and suppliers. In parallel, and core to the expansion of Keravit's business, a new marketing function and a new financial information system were put in place. The repositioning and restructuring were achieved without any job losses.

As the restructuring took effect, Keravit soon had a healthy cash flow. By 1997, the €1.25m subordinated loan was replaced with bank loans, limiting Czech Venture Partners' capital exposure to just €3,000. New products were rolled out and the client base grew dramatically. By 2003, 32% of Keravit's production was exported and substantial client contracts had been secured in Great Britain, Germany, Italy, France, Mozambique and China.

Luděk Vícha, Keravit's CEO, sums up: "Eight years ago, Keravit was reckoned to be an unacceptably risky proposition by the banks and by our own mother company. With strong support from Czech Venture Partners, management successfully completed the buyout and went on to define and implement a wholly new company philosophy and strategy. Czech Venture Partners' assistance with the reconstruction of our production capability, and with cash flow optimisation and control, was of the utmost importance."

EXIT

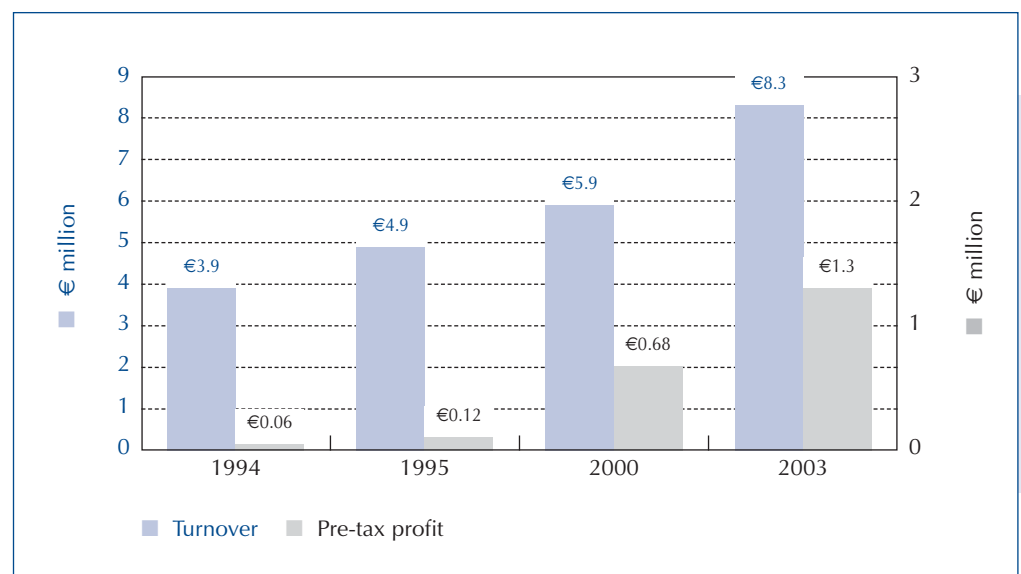
A potential buyer approached the shareholders in 2000, but the valuation was below expectations. Czech Venture Partners decided to change tack. Instead of attracting a strategic investor, it persuaded management that with no leverage and more than €1m in annual profits the preferred exit route would be a sale to a financial investor. A Czech financial firm, Progresse, was identified in November 2003 and a deal was struck by the end of that year. This achieved total returns for Czech Venture Partners of €6.75m, a 5.4-times cash multiple and an IRR of 31%.

A niche product manufacturer was transformed into a diversified, competitive and international business by venture capital investment and strategic repositioning.

VALUE ADDED

Czech Venture Partners implemented the strategic repositioning that moved the company from having a product focus to being market-oriented. By embedding this cultural shift and stressing the importance of cost reduction at every level of the business, Czech Venture Partners ensured that Keravit gained the resilience it needed to compete cost-effectively for customers in both the domestic and international markets. During the period of investment, Czech Venture Partners provided in-depth assistance when help was needed. For example, when Czech Venture Partners helped the company offset €400,000 of unpaid receivables from Vítkovice against Keravit's ongoing gas and electricity supplies, it saved the company from a financial crisis during the 1998 economic recession.

Financial results pre-investment to exit



Polish consumer credit firm develops into leading diversified financial institution

- **Activity:**
Financial services
- **Country:**
Poland
- **Private equity investor:**
Enterprise Investors
- **Capital invested:**
\$15m
- **Type of deal:**
Expansion capital
- **Initial investment:**
1997
- **Exit:**
2001

Lukas

By 1997, Lukas was already a leader in the Polish instalment loans market. However, it needed external funding for sustainable growth and development. When Enterprise Investors injected \$15m in exchange for a 28% stake in the business, Lukas was able to buy a bank and develop rapidly as a retail-focused financial institution. Four years later the investor exited in a highly competitive auction process to Crédit Agricole, achieving 5.6 times its invested capital and an IRR of 52%.

COMPANY BACKGROUND

Lukas began as a small network of hi-fi equipment stores in Lower Silesia. In 1992, the firm decided to increase sales by offering point-of-sale financing to its customers. Initial success persuaded management to focus efforts on this service. At the time, competition from the banking sector was limited, so Lukas seized the opportunity to position itself as an intermediary, and secured the necessary funding from banks. The company built relationships with over 16,000 retail outlets nationwide. By 1997, it was generating loans of \$285m per year, which brought revenues of \$19m and net profit of over \$7m. The workforce had grown to around 1,000 employees. Importantly, Lukas had a database of some 600,000 customers, and a unique system for database analysis and risk profiling that ensured low volumes of non-performing loans. Already at the time, the company was taking the risk of loan failure. Moving forward, the priority for Lukas was to buy a bank in order to secure its own funding base, reduce dependence on other banks for its capital needs and develop new products.

INVESTMENT

Enterprise Investors began developing a relationship with the Lukas team in mid-1995 and believed the company represented a strong base from which to build a diversified financial services business. Specifically, the company's unique database of consumer loan customers and highly efficient risk analysis system made the firm interesting for Enterprise Investors.

In 1997, Enterprise Investors acquired a 28% stake in the business for \$15m. The company's founders had selected Enterprise Investors' offer against rival bids from industry players because the deal allowed them to keep their independence, and to benefit from this investor's already substantial banking sector experience.

COMPANY PERFORMANCE

Enterprise Investors worked with the founders to transform Lukas into a fully-fledged personal finance company. In 1998, Enterprise Investors identified and helped Lukas acquire a controlling interest in Bank Świętokrzyski, re-branding the institution Lukas Bank.

At the same time, a new CFO was recruited, better financial controls introduced and transparency improved. Enterprise Investors helped bring in specialised banking managers from its previous investments in the sector.

Since Lukas was new to the Polish banking market, it was important to strongly position the bank in alternative channels of financial service provision. A series of modern mini-branches, ATMs (automated teller machines) and telebanking services were launched in quick succession. Subsequently, Lukas Bank became one of the first Polish banks to offer e-banking. Concurrent with these initiatives, the company continued to develop its point-of-sales activity.

Lukas was growing rapidly. Between 1997 and 2001 it diversified its product range to include cash loans, car loans and retail deposits. One hundred bank branches were successfully rolled out around the country and Lukas had become a well-recognised household brand. By Enterprise Investors' exit, Lukas was generating an annual loan volume of \$560m, \$100m in revenue and over \$10m in net profit. Importantly, the company had successfully established its own funding base, having accumulated deposits of nearly \$700m. The total group numbered around 2,400 employees.

EXIT

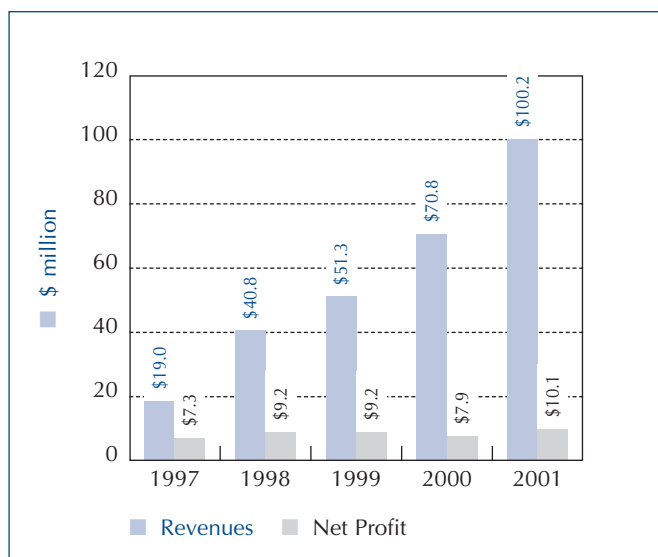
By 2001, international institutions saw Lukas as a unique platform for expansion into Poland's retail banking sector. As a result, the company received more than 30 expressions of interest from trade players. With the help of sector specialists at investment bank Donaldson, Lufkin & Jenrette, Enterprise Investors narrowed the field down to three bidders, with Cr dit Agricole emerging as the frontrunner. The sale valued Lukas Group at over \$343m. Proceeds for Enterprise Investors were \$84m, which represented 5.6 times its invested capital and an IRR of 52%.

Enterprise Investors provided the capital, know-how and assistance in finding and acquiring a bank that allowed Lukas, Poland's leading consumer finance company, to become independently funded and develop into a cutting-edge financial institution in the retail banking sector.

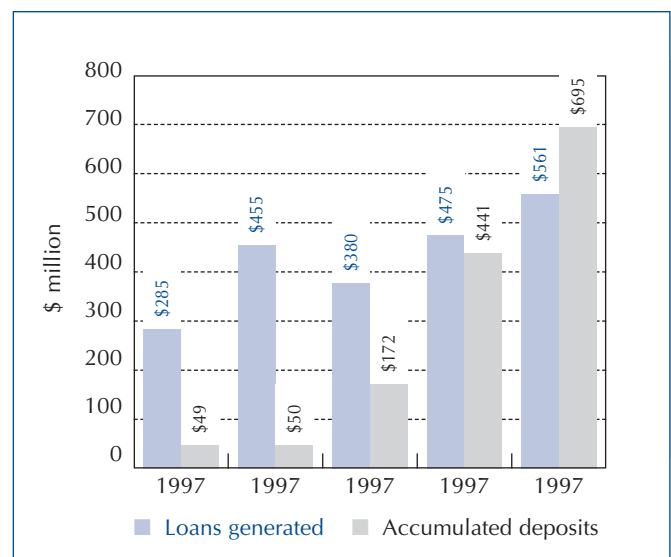
VALUE ADDED

Enterprise Investors helped Lukas identify and purchase a bank and then integrate it into the existing business structure, thus enabling the company to develop into a leading modern retail banking operation. The investor helped to manage the relationship between the three owners/founders, building consensus for the overall expansion and diversification strategy as well as for the exit process. Also, by taking over as company president in 2001, Enterprise Investors investment manager Dariusz Pro czuk facilitated a smooth exit, generating maximum value for all shareholders. The company today remains a leading player in the Polish personal loans and retail banking market.

Financial performance 1997-2001



Loan and deposit generation 1997-2001



MBO helps turn local construction materials supplier into diversified regional producer

- **Activity:**
Construction materials
- **Country:**
Czech Republic
- **Private equity investor:**
Czech Venture Partners
- **Capital invested:**
€1.1m
- **Type of deal:**
Management buyout
- **Initial investment:**
1995
- **Exit:**
2001

Mineral / Slezské izolační závody

Mineral's management team approached Czech Venture Partners for funding in 1994, hoping to buy their slate processing company out from state ownership. In early 1995, Czech Venture Partners invested an initial €600,000. A year later it committed an additional €500,000, with which Mineral launched a new joint venture business, Slezské izolační závody. The investments gave Czech Venture Partners a 49% stake in Mineral. By 1998 the turnaround of the business was a clear success, with pre-tax profits of €1.6m. Between 1998 and 2001, Czech Venture Partners exited its positions in the two companies via asset sales to strategic investors. In total it realised €4.5m, which represents a 4.1-times cash multiple and a 50% IRR.

COMPANY BACKGROUND

In 1994 the state-owned Horní Benešov, also known as Mineral, was one of the two leading Czech manufacturers of semi-finished slate products for the local construction industry. The company was coming under pressure due to under-investment and the lack of improvements to its existing production processes. The management was actively looking for funding to privatise, as this would enable Mineral to step up slate mining and processing activities and launch asphalt insulating strip production. But, with few assets of its own and a comparatively short track record, Mineral was unable to attract bank financing.

INVESTMENT

In 1994, Mineral's management approached Czech Venture Partners. With minimal profits on turnover of €900,000, the business was under threat and likely to face further problems under its then state ownership. However, Czech Venture Partners believed Mineral's management had the skills and vision to make major strides in the market and transform Mineral from a supplier to an end producer, which was expected to increase profitability. Mineral's location in the northeast of the Czech Republic, close to Poland and its large market potential, was also favourable. Czech Venture Partners provided a total €1.1m in funding, investing €175,000 of this in the management buyout vehicle in exchange for a 49% stake in the business. A further €425,000 was used to buy the company's assets out of state ownership, and a year later the remaining €500,000 was injected so that Mineral could develop a joint venture named Slezské izolační závody.

COMPANY PERFORMANCE

Says Mineral's CEO, Jiří Bednarčík: *"Change for the better arrived with Czech Venture Partners' involvement. It brought in not only direct funding in the form of equity and a subordinated loan, but also improved the company's image, to the extent that it was eligible for a long-term lease of machinery, as well as for bank financing."* The joint venture in asphalt insulating strip production helped the company climb the supply chain and quickly secured customers in neighbouring countries. From a standing start in 1996, the joint venture was achieving pre-tax profits of €1m just a year later.

By the end of 1997, Mineral and Slezské izolační závody had more than 100 employees. Having developed new manufacturing processes and captured significant market share in the region, both businesses were performing well. Mineral's revenues had grown five times since 1994 and the joint venture rapidly achieved revenues of €7.3m.

EXIT

By 1998, with the businesses developing quickly, negotiations with strategic investors were concluded for selling both Mineral and the Slezské izolační závody joint venture. The exit process was complex and centred around sales of assets through newly established companies. Izolacja Zduńska Wola, a Polish strategic investor, bought the business of Slezské izolační závody for €5.9m, and Carrières des Lacs, the global slate processing company, bought Mineral's core business for €5.4m.

Under the terms of the sale transactions, Czech Venture Partners received proceeds in the form of dividends and debt repayment over a three-year period. Finally, in 2001, the shares of Mineral were sold back to the management and Czech Venture Partners completed its exit. In total, the investor realised proceeds of €4.5m, which represented a 4.1-times cash multiple and a 50.2% IRR.

With venture capital funding, Mineral's management was able to develop this troubled slate processing business by diversifying into new products and building regional market share. The result was an almost sevenfold boost in profits between the investor's entry and exit.

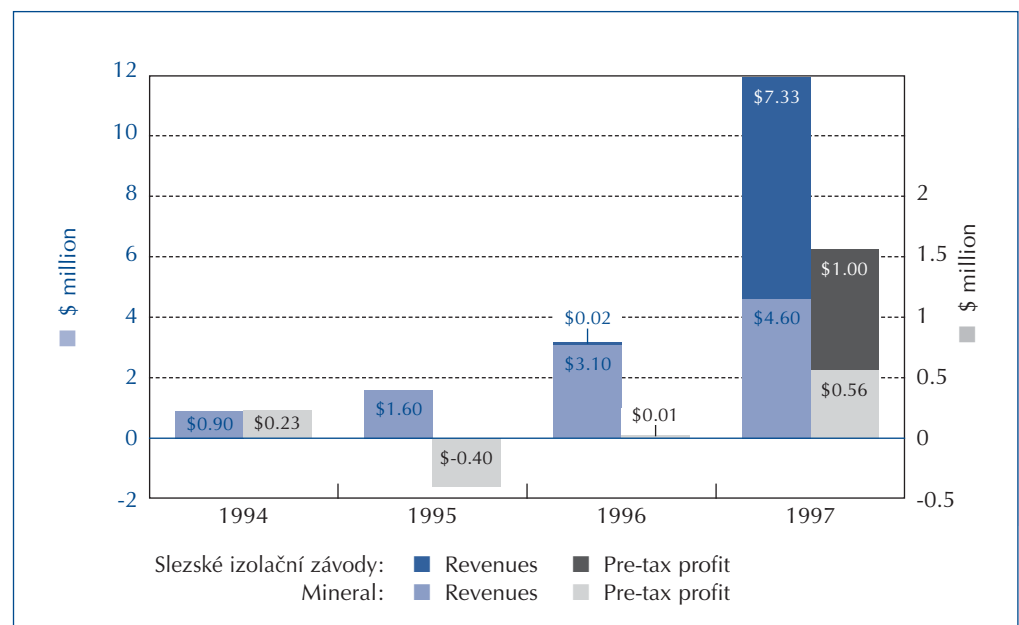
Both businesses have prospered since Czech Venture Partners' exit, with Mineral building market share in Russia alongside its existing markets, and Slezské izolační závody now being held by a US-based strategic investor. All four of Mineral's original individual partners continue to work for these companies in senior managerial positions.

VALUE ADDED

Czech Venture Partners' investment in Mineral came at a decisive moment. Without funding, the business would almost certainly have collapsed. Aside from its capital injection, Czech Venture

Partners ensured that Mineral's management, systems and controls were brought up to date, enabling the company to target market opportunities from a stable base. The investor also identified the joint venture partner for Slezské izolační závody and helped ensure a quick start for the business. Finally, Czech Venture Partners strongly encouraged management to target expansion into Poland and Slovakia, correctly believing that this would attract strategic investors.

Financial performance 1994-1997



Croatian logistics business gets major share of competitive local market

- **Activity:**
Transport and logistics
- **Country:**
Croatia
- **Private equity investor:**
Copernicus Capital Partners (via Croatia Capital Partnership)
- **Capital invested:**
\$1.3m
- **Type of deal:**
Expansion capital
- **Initial investment:**
2000
- **Exit:**
2003

Overseas Express

Overseas Express was already well established in the developing private operator market in 2000, when Copernicus Capital Partners invested \$1.3m in exchange for a 54% equity stake. Copernicus initiated a comprehensive strategic review and provided acquisition capital at a later stage to fund purchase of a key competitor. Three years later Copernicus achieved a 3.5-times cash multiple and an IRR of approximately 45% when it sold its stake to a subsidiary of Austria Post.

COMPANY BACKGROUND

Launched in 1995 with just two employees, by the end of 1999 Overseas Express had a workforce of 26, revenues of \$1.5m – up 64% on the previous year – and EBITDA of \$385,000. By targeting blue chip companies willing to pay a premium for a faster, more efficient service, Overseas Express had developed a reputation for reliability and quality at the top end of the commercial delivery market. Despite this growth, however, the company remained relatively small and its founder and director, Mr Mišo Mraović, needed funding to expand parcel volumes and to introduce a complementary bulk transport service.

INVESTMENT

For Copernicus, Overseas Express was an attractive investment proposition. Demand for privately owned parcel delivery services was growing fast and the company had already proved itself capable of building market share as well as running a profitable business in a fragmented, fast-changing environment. Convinced that the company's existing business could be developed into an attractive target for foreign strategic buyers, Copernicus invested \$1m in July 2000, taking a 54% stake in the business. Its owner retained 46%. A follow-on investment of \$300,000 was made in 2002, financing the acquisition of a competitor.

COMPANY PERFORMANCE

Following the investment, four new sorting centres were built around the country, with the result that parcel volumes were rapidly increased, and the bulk transport service was successfully launched.

Within months of its investment, Copernicus was talking to potential strategic buyers and identifying their requirements. Based on these discussions, Copernicus initiated a strategic review of the company. It was clear that for some international operators, market share would be more attractive than profitability. Copernicus addressed this by persuading its partner to shift focus away from high-end premium business in favour of broader market penetration.

However, growing competition in the market was beginning to depress prices and margins, and to increase client churn. To accelerate building market share, the company needed to make an acquisition. Copernicus injected an additional \$300,000 to fund the purchase of Inter Alpina, a competing delivery company. This gave Overseas Express a leading market share and eliminated a potentially significant competitor.

Overseas Express

EXIT

The company was soon servicing most of the main cities in Croatia. Market conditions had, however, grown tougher and an upsurge in low-cost competitors was squeezing margins. A trade sale to an international player would give the company the resources to stay ahead. By the time discussions began with its eventual purchaser, Post International Zagreb – the local subsidiary of Austria Post Group – the company numbered 100 employees, having doubled in size during the three-year investment period. Up to the November 2003 exit date, revenues had increased 2.6 times since the original investment to approximately \$4.3m and EBITDA had reached \$900,000.

At exit the buyer paid a price for the company that exceeded even the founder's expectations. Copernicus received \$4.6m for its share of the business, representing a 3.5-times cash multiple and an IRR of approximately 45%.

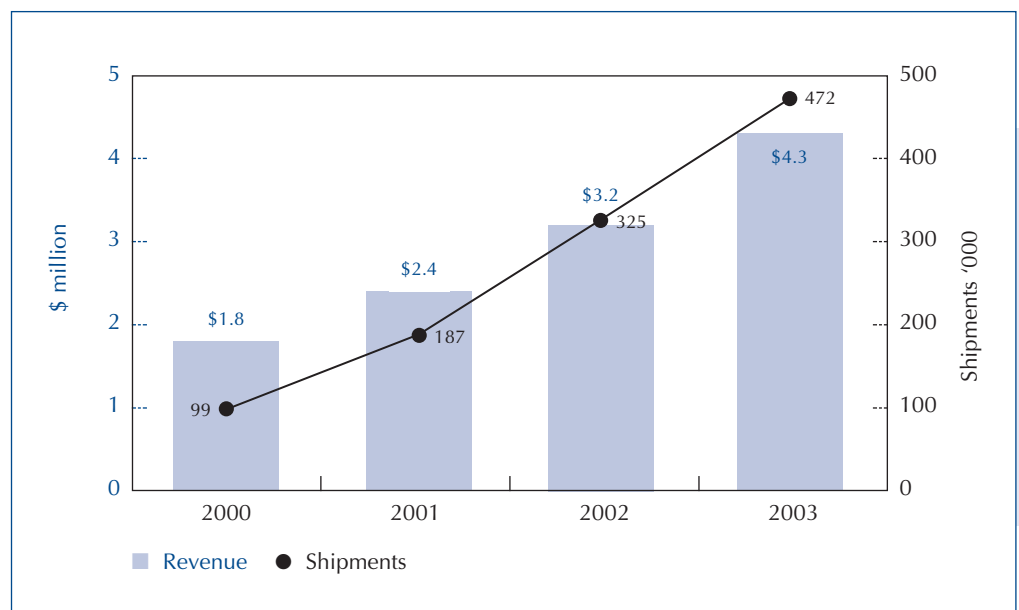
This investment saw Overseas Express successfully reposition itself and consolidate the Croatian market, becoming attractive to international strategic buyers. On exit, the company was the number one privately owned express parcel and bulk freight distribution business in Croatia, and ideally positioned to consolidate its lead.

VALUE ADDED

Copernicus tailored Overseas Express's strategy to dovetail with potential buyers' requirements and enhance the company's international appeal. Specifically, Copernicus helped to improve the company's reporting and governance structures; it researched and initiated a strategic review that fundamentally switched the company's business focus; it evaluated and negotiated the acquisition of a leading competitor; and, by proactively managing the exit process, it generated an excellent cash return, as well as ensuring that Overseas Express was well-supported for future growth. As Mišo Mraović puts it:

"My ultimate goal was to sell the company, taking advantage of the increasing trend towards globalisation and consolidation in that market sector. Copernicus played a vital role, first identifying the buyer, then supporting us in negotiations."

Financial performance 1999-2003



Buyout turns state-owned pharmaceutical firm into publicly traded market leader

- **Activity:**
Pharmaceutical production
- **Country:**
Poland
- **Private equity investor:**
Enterprise Investors
- **Capital invested:**
\$14.3m
- **Type of deal:**
Buyout/expansion capital
- **Initial investment:**
1995
- **Exit:**
2003

Polfa Kutno

Marking the successful privatisation of this leading pharmaceutical producer, Enterprise Investors invested a total of \$14.3m over a two-year period, eventually holding a 69% stake in Polfa Kutno. After extensive restructuring and divestment of non-core activities, Polfa Kutno had become a highly profitable human drugs business, reaching \$8m net profit on sales of \$61m in 2003. In September that year, Enterprise Investors exited its investment in a highly successful secondary offering on the Warsaw Stock Exchange, generating an overall 5.4-times multiple of cash invested and an IRR of 23%.

COMPANY BACKGROUND

Prior to its privatisation in 1995, Polfa Kutno was in need of technological upgrades to meet the industry standards for good manufacturing practice. Human drugs accounted for just 25% of its \$37m sales at the time, but Enterprise Investors identified this business segment as having the potential for future value growth in a dynamic market. Few of the company's 1,400 employees worked in sales and marketing and there was a lack of focus in its product offering. The management team understood the need for change, but was unable to take serious action without capital and a new ownership structure.

INVESTMENT

Enterprise Investors began talking to Polfa Kutno's management in 1994, even before it was put up for sale by the Polish State Treasury. In 1995, following its selection as the preferred buyer for the company, Enterprise Investors injected \$8.8m in the business for a 49% stake, with the remaining 51% floated on the Warsaw Stock Exchange. To guarantee Polfa Kutno access to investment capital, Enterprise Investors undertook to invest \$5.5m in new share issues over the next two years. Enterprise Investors eventually committed a total of \$14.3m for a 69% stake in the equity.

COMPANY PERFORMANCE

Enterprise Investors worked with management to develop a plan for restructuring the business based on its core strengths, and to help identify viable markets and competitive opportunities. The investor also helped define human drugs, animal feed additives and intravenous fluids as the business's key profit centres. Human drugs became the main focus and an immediate task was to build a strong sales force for these products from scratch.

Before long, the animal feed additives business and the intravenous fluids business were put up for sale, and were bought by BASF and Fresenius AG respectively. Human drugs, which were split into prescription and over-the-counter product lines, were facing very different market conditions. Polfa Kutno was trying to gain market share for prescription drugs in a very competitive sector, and was already an established market leader in over-the-counter drugs. With the help of specialised US-based industry executives identified by Enterprise Investors, the company both licensed and purchased the generic equivalents of certain prescription drugs and launched them effectively on the Polish market. This area of activity became a key value driver for the company.

By 2000, the restructuring process was complete. All major financial indicators – sales, net profits, free cash flow – were showing significant growth. The rationalisation programme, investment in new products, development of an effective sales force, and full upgrade to good manufacturing practice production standards were paying off. In 2003, revenues of \$61m and net profit of \$8m were the best to date.

Polfa Kutno

EXIT

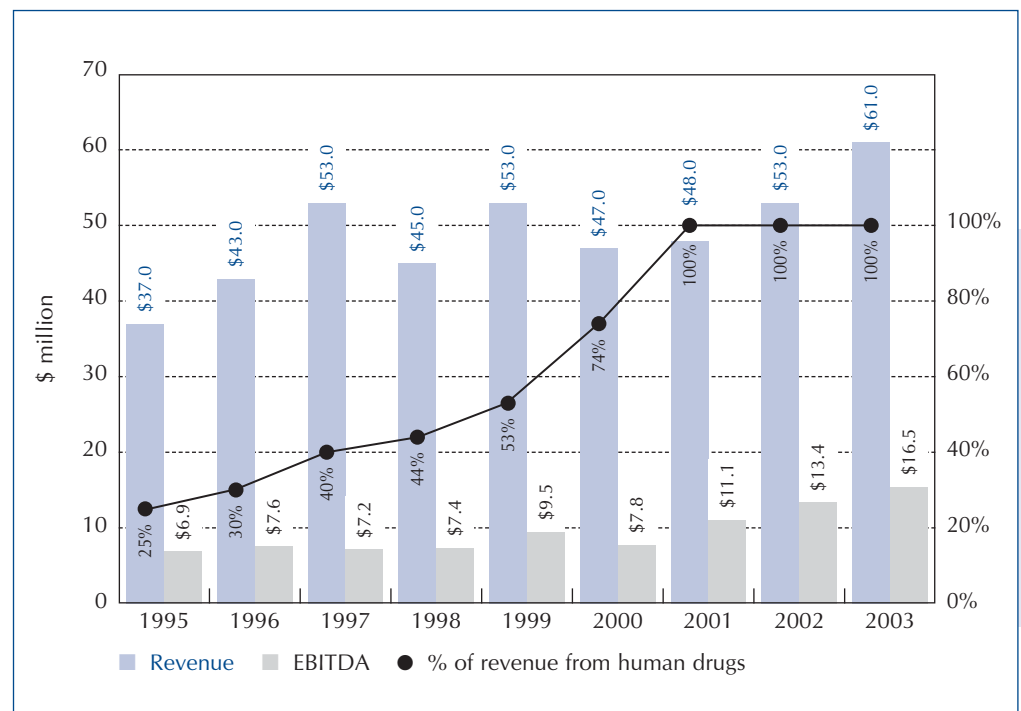
Enterprise Investors began considering an exit in 2000, when the restructuring was largely completed. The company was publicly traded, but liquidity was low as Enterprise Investors had a 69% ownership position. As offers from potential trade buyers at the time were below expectations, two partial recapitalisations were concluded instead, by leveraging the company's balance sheet and conducting buybacks of its shares. In 2003, Enterprise Investors decided to take advantage of the buoyant stock market and in September of that year exited its investment via an oversubscribed secondary offering on the Warsaw Stock Exchange. It divested its entire stake, selling primarily to domestic Polish institutional investors. The \$79m transaction represented a 5.4-times cash multiple for Enterprise Investors and an IRR of 23%.

The buyout of pharmaceutical company Polfa Kutno paved the way for its restructuring and ultimate transformation into a leading, highly profitable independent producer of generic prescription drugs and over-the-counter products.

VALUE ADDED

Enterprise Investors' key contribution to Polfa Kutno was its focused guidance throughout the extensive restructuring and development programmes. The investor recruited top executives to the company's management at key points, for example a new CEO in 2000, and introduced strategic and industry consultants along the way. Enterprise Investors also led a substantial secondary offering of its shares on the Warsaw Stock Exchange, proving that the local market could provide necessary and significant liquidity in the absence of suitable valuations from trade buyers.

Financial performance 1995-2003



Small Hungarian R&D business secures place in global semiconductor industry

- **Activity:**
Semiconductor equipment manufacturing
- **Country:**
Hungary
- **Private equity investors:**
Euroventures Hungary;
Hungarian-American Enterprise Fund;
Venture Capital Hungary
- **Capital invested:**
€850,000
- **Type of deal:**
Expansion capital
- **Initial investment:**
1992
- **Exit:**
1999

Semilab

With ambitious plans to roll out new products in international markets, Semilab needed funding and strategic management expertise to push ahead. Euroventures Hungary invested €400,000 for a 21% stake in the company. With its two co-investors, the Hungarian-American Enterprise Fund (HAEF) and Venture Capital Hungary, Euroventures steered through the early management difficulties triggered by the sudden death of the company's owner and chief scientist. The company went on to introduce new products, increase market share and substantially increase sales and profits. Exit via trade sale in 1999 gave Euroventures a 3.44-times money multiple and a 32% IRR on its original investment; HAEF earned a 2-times cash return and an IRR of 21%.

COMPANY BACKGROUND

Founded in 1990, Semilab had 15 employees by 1992, including scientists and support staff. At that time, the firm manufactured and sold just one product, a sophisticated diagnostic tool destined primarily for use by semiconductor wafer producers in Asia. The company's key strengths were the quality of its research and development and the fact that it had just two competitors, one in Germany and one in the USA. This made Semilab a credible platform for growth in a dynamic international market sector. In 1992 Semilab was already breaking even on revenues of €200,000. However, its aggressive international sales growth strategy meant that attracting expansion capital had become an urgent priority.

INVESTMENT

It was clear to Euroventures and its co-investors that Semilab had the vision and expertise needed to develop new products with substantial sales potential. The market reputation that Semilab's already commercialised product had acquired for high accuracy and sensitivity was also a supporting factor in the investment decision. Close scrutiny was paid to the company's management experience, as Euroventures investment manager Andras Geszti explains: *"One of the key attractions to us at that time was the reputation of Dr Ferenczi, the scientist behind the company, as well as Semilab's gutsy but impressive growth agenda."*

The company's over-ambitious business plan proved to be one of the main obstacles to closing the deal. At first, this strategy pressured the investors to accept a high valuation based on discounted future cash flows. However, in the end, a ratcheted valuation structure was adopted, protecting Euroventures from over-payment and smoothing the way to their investing €400,000 for a 21% stake in Semilab. The Hungarian-American Enterprise Fund co-invested in this first round, and a local institutional investor, Venture Capital Hungary, joined in six months later in a second round. As a result, the financial investors invested a total €850,000 for 75% of the company.

COMPANY PERFORMANCE

Initially, the investors faced a difficult situation. Dr Ferenczi's sudden and unexpected death within the first year, and the replacement management team's failure to make much impact on the business, meant that prompt action was needed to put the company back on course. As well, a lack of effective financial and sales processes needed attention, and decision-making was complicated by a preponderance of minority interests.

A new board was put in place, with Mr J. Jankovich of Venture Capital Hungary providing valuable input as its chairman. A new management team was selected from within the company. The investment capital was directed toward new product development and improved marketing. During the course of the investment, six new products were developed, all in the semiconductor field, and market share was significantly expanded across Southeast Asia. With streamlined management and effective financial controls in place, the company achieved profitability for the first time in 1994.

Since its fortunes were tied to the global semiconductor industry, Semilab was exposed to substantial cyclical variation, causing turnover and profits to dip sharply in 1998 as a direct result of a slowdown in industry demand. Notwithstanding this volatility, turnover had risen to €2m by the time of exit in 1999, with Euroventures and HAEF receiving nearly twice their original investment just from cumulative dividends paid over the life of the investment.

By focusing on new product development, improved marketing and better internal controls in this small technology R&D business, the investors provided a stable platform from which Semilab achieved a 1,000% increase in sales during the seven-year investment period.

EXIT

Achieving a successful exit proved to be a challenging and time-intensive process. The three investors had attempted to negotiate an earn-out deal with management, enabling them to buy shares back over a specified period of time, but an agreement proved elusive. This prompted the search for a suitable trade sale candidate. Eventually, under Euroventures' leadership, the company entered negotiations with Videoton, a large independent electronic contracting services provider in Central and Eastern Europe. Videoton was interested in Semilab as it lacked its own innovative manufacturing capability.

As a result of the sale, and including dividends received over the life of the investment, Euroventures realised a 3.44-times money multiple and an IRR of 32% on its investment. HAEF earned a cash multiple of 2 times on its investment and an IRR of 21%.

Videoton held its position in Semilab for two and a half years, before selling its stake through a management buyout to the company's CEO, Tibor Pavelka, in 2002. From that time, Semilab has continued to be a market leader with its well-defined product range.

VALUE ADDED

Euroventures, together with its two co-investors, successfully restructured Semilab's management in the wake of its founder's sudden death, helping to overcome what could have been a major setback, and providing a firm foundation for growth. By rationalising the shareholder decision-making structure, the investors smoothed the way to effective strategic decision-making. Crucially, by mediating between the various investors and minority shareholders, the investors steered the company through a successful exit process.

Slovakian packaging producer develops into market leader with help of private equity

- **Activity:**
Plastic packaging
- **Country:**
Slovakia
- **Private equity investor:**
Raiffeisen Ost Invest
- **Capital invested:**
€1.1m
- **Type of deal:**
Management buyout
- **Initial investment:**
1998
- **Exit:**
2002

Slovpack

Up until 1998, Slovpack lacked a clear business strategy. To Raiffeisen Ost Invest and its managing director Rolf Theuer, however, Slovpack was an attractive investment proposition, with a management team that had extensive experience. Slovnaft, a 50% owner of the company, was searching for a reliable joint venture partner to develop Slovpack. Buying out Slovnaft's outgoing joint venture partner for €1.1m, Raiffeisen Ost Invest set about developing a five-year business plan and a new development strategy. In 2002, Raiffeisen Ost Invest exited in a management buyout transaction and realised 3.3 times its invested capital with an IRR of 32%.

COMPANY BACKGROUND

Slovpack was founded in 1994 as a specialised manufacturer of plastic packaging for clients in the Slovakian food and industrial construction sectors. By 1998, although ranked number three in the local market, the company was under a joint venture ownership structure that handicapped effective decision-making and impeded development. At that stage Slovpack was a small 40-employee business, with 1997 EBITDA of €800,000 on sales of approximately €4m, and was jointly owned by Slovakian Slovnaft and Italian Technoplastic. A transfer of ownership from the Italian partner to a Luxembourg-based company further complicated relations between the stakeholders.

INVESTMENT

Raiffeisen Ost Invest was convinced that Slovpack's business was being held back by a lack of consensus between management and the company's two owners. When Technoplastic transferred its shareholding to a Luxembourg-based company, Slovnaft started looking for a replacement joint venture partner. This prompted Raiffeisen Ost Invest to put itself forward as a potential candidate. The deal saw Raiffeisen Ost Invest buy out the Luxembourg-based co-owner's 50% stake for €1.1m.

COMPANY PERFORMANCE

Working closely with Slovpack's management and with Slovnaft, Raiffeisen Ost Invest pushed hard for agreement on a five-year business plan, as well as an overhaul of legacy governance structures and financial control systems. The strategy saw the company invest in new moulding machinery and diversify its product offering while at the same time boost product quality. Raiffeisen Ost Invest ensured that production was tied directly to client orders rather than to forecast demand. By 2002, Slovpack's sales had grown from €4m to €10m, with EBITDA doubling over the same period to €2m and productivity increasing by 30%. The company became sufficiently cash-rich to pay out a €600,000 dividend by 1999. Slovpack grew to be the leader of the Slovakian market and, by 2002, the company was exporting half its products to Germany, the Netherlands, Austria, the Czech Republic and Poland.

Slovpack

EXIT

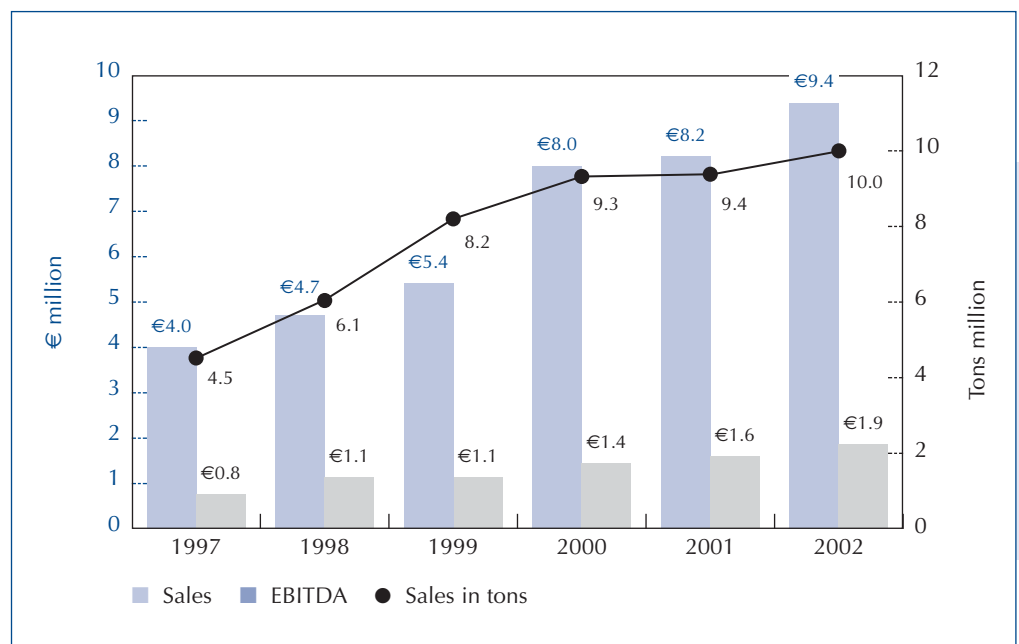
Four years after the investment, Raiffeisen Ost Invest persuaded Slovnaft to exit with it at the same time and took soundings from the market. The prognosis was not encouraging. International strategic buyers were grappling with recession and margin decreases, and showed little appetite for making an acquisition in Slovakia. Rather than postponing the planned exit, Raiffeisen Ost Invest convinced Slovpack's management to go for a buyout, and set about helping them identify suitable financial partners to support them. By the end of 2002 private equity fund Renaissance had agreed to back the deal, valuing the company at €6.5m. Raiffeisen Ost Invest realised €3.25m from the sale, representing a 3.3-times cash multiple and an IRR of 32%.

By resolving this plastic packaging company's difficult ownership structure and investing in the business at a crucial stage in its development, Raiffeisen Ost Invest helped build a market-leading business at a challenging time in the evolution of the Slovakian economy.

VALUE ADDED

Raiffeisen Ost Invest added value to Slovpack by working effectively together with Slovnaft as co-owner of the business. The investor ensured that Slovpack would benefit from financial know-how, business experience and on-the-ground management assistance. Also, it defined and helped implement a clear expansion strategy based on increased quality and product diversification. In addition, Raiffeisen Ost Invest negotiated and agreed a workable and expedient exit strategy. Overall, this ensured a sustainable future for the business as the market leader in its sector.

Financial performance 1997-2002



Niche dental products manufacturer becomes diversified regional player

- **Activity:**
Dental supplies
- **Country:**
Czech Republic
- **Private equity investor:**
Riverside Central Europe Fund
- **Capital invested:**
\$8.9m (including assumed debt)
- **Type of deal:**
Leveraged buyout
- **Initial investment:**
1998
- **Exit:**
2003

Spofa Dental

In 1998, Spofa Dental was a well-regarded local manufacturer of consumable dental supplies. Following the buyout of 100% of the company shares, Riverside set about restructuring Spofa Dental by installing new management, investing in R&D, opening regional representative offices and building an effective sales network. By 2003, sales had risen to \$12m from \$9m in 1999, and EBIT had increased to \$2.1m from \$1.3m in the same period. Spofa's acquisition by US-based Sybron Dental Specialities in 2003 represented a 3-times cash multiple and a 24% IRR for Riverside.

COMPANY BACKGROUND

Formerly a state-owned enterprise, Spofa Dental exported a significant part of its production to the former member countries of the Warsaw Pact. Incorporated as a joint-stock company in 1994 and later part of the Czech voucher privatisation programme, Spofa Dental was, at the time of Riverside's investment, a niche dental consumables manufacturer with four owner-managers and 280 employees. The management recognised that any transformation of the company into a modern, customer-oriented and competitive business would be a challenging process requiring major investment in product innovation, sales and marketing. In addition to the development of a new strategy, a substantial restructuring of Spofa Dental's management and workforce was needed.

INVESTMENT

For Riverside, Spofa Dental represented an exciting opportunity to leverage the company's existing strong reputation and create an innovation-led, competitive and regional business. Radim Stach, Riverside's investment manager, sums up: *"We were already experienced investors in old economy businesses, and although this was the first dental consumables company we'd acquired, its great potential was immediately apparent."*

From 1998, Riverside gradually acquired 100% of the company's equity, purchasing shares from the management, the Czech National Property Fund and from local public market minority investors. Part of the transaction had Riverside assume acquisition debt from some of the previous owners. The total financial commitment was \$8.9m.

COMPANY PERFORMANCE

Riverside's immediate priority was to overhaul the company's management and internal controls. A new CEO with a background in the German pharmaceutical industry was recruited, and new reporting channels, decision-making and auditing processes were introduced. Sales and marketing was split into two departments, with new directors hired for each. Riverside also initiated a broad-based restructuring of the whole business, consistent with the objective to reposition the company as a competitive organisation in all core markets across the region.

When Spofa Dental's exclusive foreign trading partner collapsed in 1998, the company seized on the opportunity to take over all its employees and establish its own export sales offices around the region. As part of this expansion, a subsidiary was also opened in Moscow. In March 2003, Spofa Dental completed an add-on acquisition in Poland, becoming 100% owner of MIFAM Teeth, the largest Polish acrylic teeth manufacturer. Between 1998 and 2003, the company consistently augmented its product range with new product developments. By the end of this period, Spofa had established proprietary sales offices in all major regional markets.

Spofa Dental

Commenting on developments throughout Riverside's investment, Spofa Dental's managing director, Ivan Oliva, says: "The main emphasis was on sales and marketing activities, while at the same time there was a focus on qualitative improvement of the production-technological potential of the business and completion of successful certification audits of the entire company. New products developed in our own R&D section were introduced to the market in 2000, after 10 years without any innovation, and support for these products was provided by the newly established product management team."

The result of this extensive restructuring and transformation was that by August 2003, the business was performing well. Leverage had been reduced by \$1.3m since 1999, and the company was well positioned for future growth in the Czech and Slovak Republics, Romania, Bulgaria, Poland, Hungary and Russia.

Riverside's investment in Spofa Dental marked the successful transformation of an old-economy production-oriented business into a modern, market-driven, innovative and highly competitive regional player.

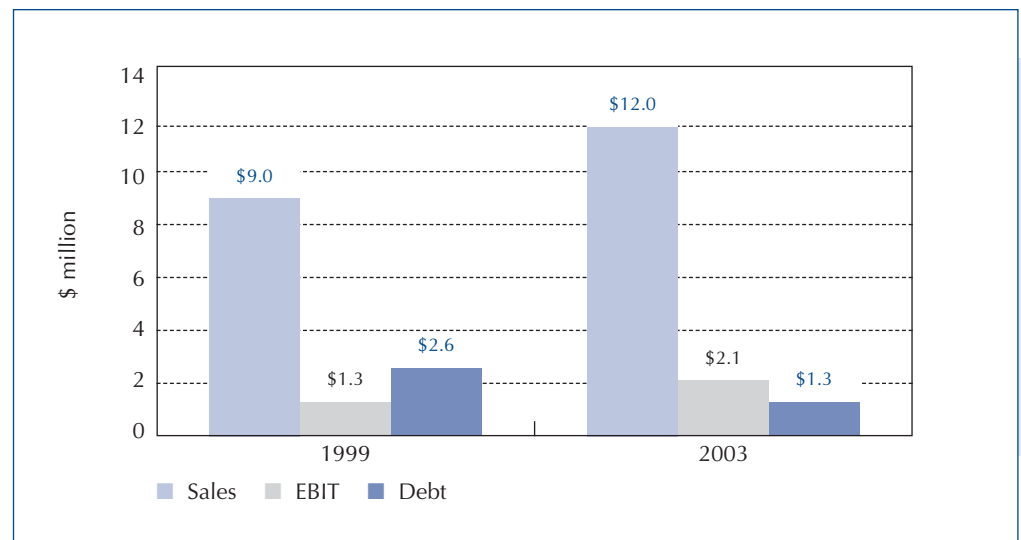
EXIT

Various multinational dental corporations demonstrated their interest in the company during 2002, and by 2003 a suitable strategic buyer had been identified: USA-based Sybron Dental Specialities, listed on the New York Stock Exchange. Following the acquisition, Sybron took direct control of the Polish and Russian operations, leaving Spofa Dental to run the other markets under existing management. For Riverside, the exit achieved a 3-times cash multiple and a 24% IRR.

VALUE ADDED

Riverside added substantial value to Spofa Dental by completely restructuring the company's management, governance, workforce and strategy. As a result, Riverside turned a company that had undertaken no innovation for 10 years into one of the region's leading dental consumables manufacturers. During this transitional phase, Riverside merged two of the company's business units, achieved settlements between all minority shareholders and oversaw an important strategic add-on acquisition. By reorganising the business in this way, it ensured the company's development into a sound, growing and sustainable regional business that became an attractive target for acquisition.

Financial performance 1999-2003



Significant investment programme drives export development and leads to successful public market exit

- **Activity:**
Rubber products manufacturing
- **Country:**
Poland
- **Private equity investor:**
Enterprise Investors
- **Capital invested:**
\$8.7m
- **Type of deal:**
Buyout/expansion capital
- **Initial investment:**
1993
- **Exit:**
2003

Stomil Sanok

In 1993, Enterprise Investors financed a buyout of Poland's largest technical rubber products company Stomil Sanok. The investment totalled \$8.7m for what eventually became a 68% holding. A significant capital expenditure programme and a focus on exports led to a substantial increase in earnings during the investment period. Exit was through a uniquely structured management buyout that transferred ownership to management in partnership with new long-term public market financial investors. Enterprise Investors sold its stake in 2003 for \$59m, achieving a 6.8-times cash multiple and an IRR of 25.1%.

COMPANY BACKGROUND

Until 1993, Stomil Sanok was 100%-owned by the Polish State Treasury. By the time Enterprise Investors bought into it, the company had \$6.6m of EBITDA on sales of \$34.5m. Under-invested and under-resourced in terms of production capability, IT, sales and marketing, Stomil Sanok was nevertheless market leader of technical rubber products in Poland, i.e., products for the automotive, construction and appliance industries. However, its state-owned heritage had left it ill equipped to compete more widely in Europe, and it was unable to leverage value from existing assets.

INVESTMENT

Led by an experienced management team, Stomil Sanok presented a clear opportunity for a focused restructuring. Enterprise Investors' interest in the company provided the Polish government with an exit route in October 1993. The investor injected \$8.7m for 59% of the equity, and its stake was subsequently boosted to 68% through share buybacks conducted by the company in 1999 and 2000. Under the terms of the deal, management was given incentives via an option programme based on meeting pre-defined operating targets, and accumulated a combined equity stake of 11% during the period of Enterprise Investors' involvement. This increased to about 30% when Enterprise Investors later exited its stake to Stomil Sanok's management and to institutional buyers through the public market. The company had become listed on the Warsaw Stock Exchange in 1997 as a way of providing liquidity to minority, individual employee shareholders.

COMPANY PERFORMANCE

Working closely with management, Enterprise Investors focused on building effective sales and marketing structures, targeting new markets, spinning off non-core activities and modernising production facilities. In addition, Stomil Sanok launched new, technologically advanced products. During the period of Enterprise Investors' involvement the company invested over \$50m, productivity per employee increased by 300% and the firm secured western export contracts. The development of exports in this period from less than 5% of sales in 1993 to over 40% in 2003 was a major achievement.

In 1999/2000 a slump in the domestic automotive market, a deepening crisis within one of the firm's major customers and a weak euro forced Stomil Sanok to downgrade production and sales forecasts. However, business was improved through increasing trade with large European and US car manufacturers such as Ford, Volvo, Fiat and Volkswagen, and with their suppliers. In addition, Stomil launched new products for the European household appliances market and secured a growing share of the European construction seal market.

Overall, results improved considerably, from revenues of \$34.5m in 1993 with an EBITDA of \$6.6m to revenues exceeding \$70m in 2003 with an EBITDA of \$13.4m. Customer satisfaction was enhanced over the same period to the extent that the company reached a zero production error rate for 97% of clients by 2003.

Stomil Sanok

EXIT

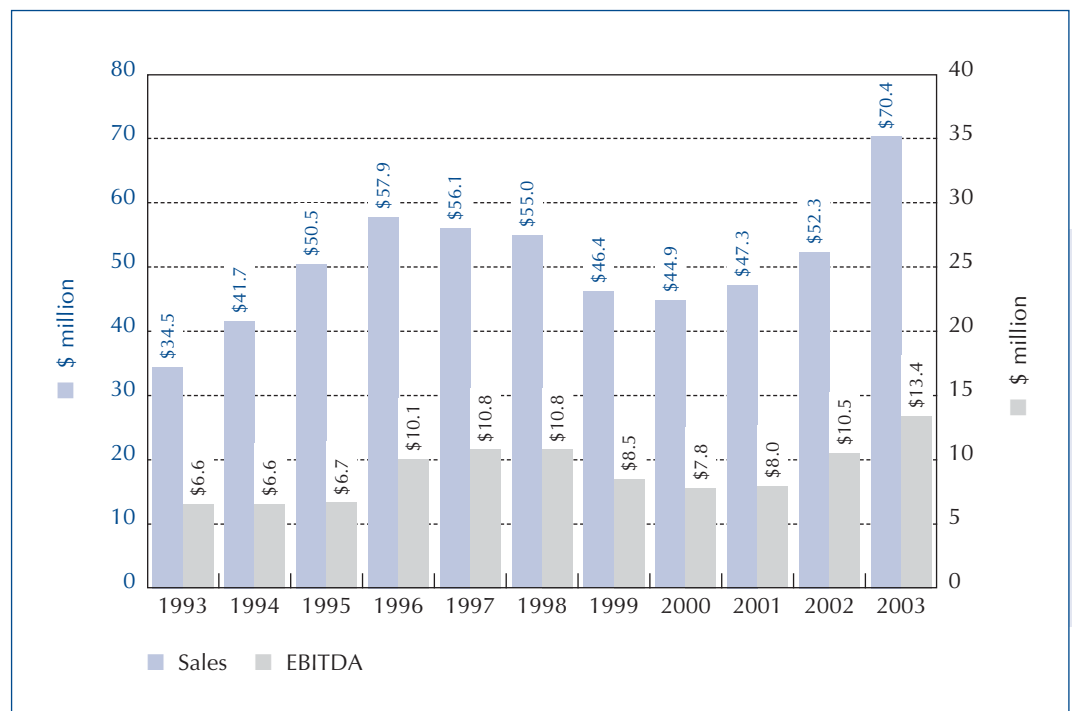
In 2002, Enterprise Investors entered negotiations to sell its 68% stake to long-term institutional public market investors and management through the Warsaw Stock Exchange. The transaction involved the company raising significant debt, which allowed for the exit to be successfully completed in November 2003. The total proceeds for Enterprise Investors came to \$59m, including \$4m in dividends and payments for management options received over the lifetime of the investment. This represented a 6.8-times cash multiple and an IRR of 25.1%.

VALUE ADDED

Enterprise Investors added value in multiple ways. Its support for the \$50m investment programme enabled Stomil Sanok to modernise its production equipment and gain strong product development capabilities. Sales were boosted by the investor's determination to recruit sales and technology specialists from European Union countries, and by its working with management to shift the sales focus to European Union markets. As a result, exports grew from below 5% in 1990 to over 40% in 2003. By introducing an options programme, Enterprise Investors secured co-ownership of the business for management, and this formed a key element of its innovative and successful exit. The investor's insistence on high corporate governance standards ensured that post-exit Stomil Sanok would become a successful and highly regarded player on the Warsaw Stock Exchange.

During the course of Enterprise Investors' involvement in Stomil Sanok, the company implemented a \$50m investment programme that enabled it to introduce new products, move into new export markets and cement its number one position at home. The exit was an innovative management buyout executed through the Warsaw Stock Exchange.

Financial performance 1993-2003



Mid-market Polish billboard firm becomes leading player in large formats

- Activity:
Outdoor advertising
- Country:
Poland
- Private equity investor:
Innova Capital
- Capital invested:
\$5m
- Type of deal:
Expansion capital
- Initial investment:
1996
- Exit:
1999

Town & City

In 1996, Poland's nascent outdoor billboard market was beginning to consolidate. Town & City, a mid-tier company, was about to be marginalised and needed funding to stay competitive. Innova Capital invested \$5m for a 75% stake in the business and provided know-how that enabled the company to make two important acquisitions and diversify into the fast-growing sector of premium large-format products. Exiting via trade sale to News Corporation three years later, Innova achieved a 4-times cash multiple and an IRR of 84%.

COMPANY BACKGROUND

At the time of investment, the mainstream Polish outdoor billboard market was crowded, with domestic and international players jostling for position. Most of these companies were substantially larger than Town & City, each controlling 2,000 or more standard-size 12m² boards, compared to Town & City's 500 boards. Without the resources to grow the business, the future looked challenging. Town & City's clients questioned the company's owner, a media-buying agency, on its neutrality, as conflicts of interest could arise from its direct ownership of an outdoor billboard business. Innova, which had already identified this conflict risk, proposed to spin out the billboard business.

INVESTMENT

Innova was convinced that the Polish outdoor advertising market would consolidate into a smaller group of media providers. As a well-managed, established business, Town & City presented an opportunity for Innova to buy into this transition by injecting sufficient capital to grow the business and capture market share. Investing a total of \$5m in a series of tranches over three years, Innova bought a 75% shareholding in the company.

At the time of its acquisition, Town & City was a relatively small player in the Polish outdoor billboard market; it was an early-stage business with 15 employees that was at EBITDA breakeven level on revenues of \$500,000.

COMPANY PERFORMANCE

Innova's value creation model for the business did not develop exactly as planned. After completing two acquisitions, Town & City had reached nationwide critical mass and grown its capacity to 3,000 standard-format 12m² billboards. However, its competitors also continued expanding their businesses and the threat of market over-supply emerged. In preparation for a market shakeout, Town & City halted further standard-format expansion. Instead, it began to develop large-format 18m² and 36m² boards in premium locations.

Initially, the company's management felt this move was too risky, as substantial follow-on investment was needed to move into the premium bracket. In time, however, conversations with media buyers confirmed strong market demand for quality large-format products. To fund rapid growth of the new format, Innova secured a \$1.5m debt facility, convincing the bank to provide the financing based on the company's cash flow.

With the new strategy in place, the company grew rapidly. From revenues of \$500,000 in 1996, the company had grown to \$3.2m revenues in 1998 and \$7.5m the following year. EBITDA rose from practically zero to \$2.7m in 1999. In terms of board numbers – another key growth parameter – the company grew from 500 standard format 12m² boards in 1996 to 3,000 in 1999, with an additional 150 large-format 18m² boards and 200 large-format 36m² boards that year.

Town & City

EXIT

In early 1999 Innova brought in a new CEO, who had 17 years' experience in the British and international outdoor media markets, to move the company to the next level. As it turned out, the CEO also played a key part in structuring the exit later that year.

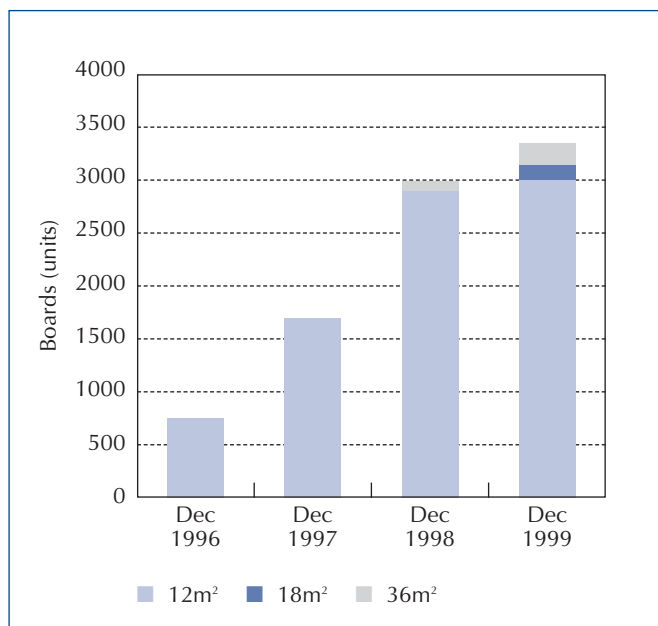
There was no shortage of foreign players eyeing the Polish market, but selecting the best fit for the company was crucial. An agreement was eventually concluded with News Corporation, who wanted exclusivity and agreed to pay a premium price to avoid a full auction. Total sale proceeds of \$22.5m represented a 4-times cash multiple and an 84% IRR on Innova's investment.

Thanks to an investment by Innova Capital, this outdoor billboard company became a leading player in the domestic market, consolidating market share and building premium value large-format products.

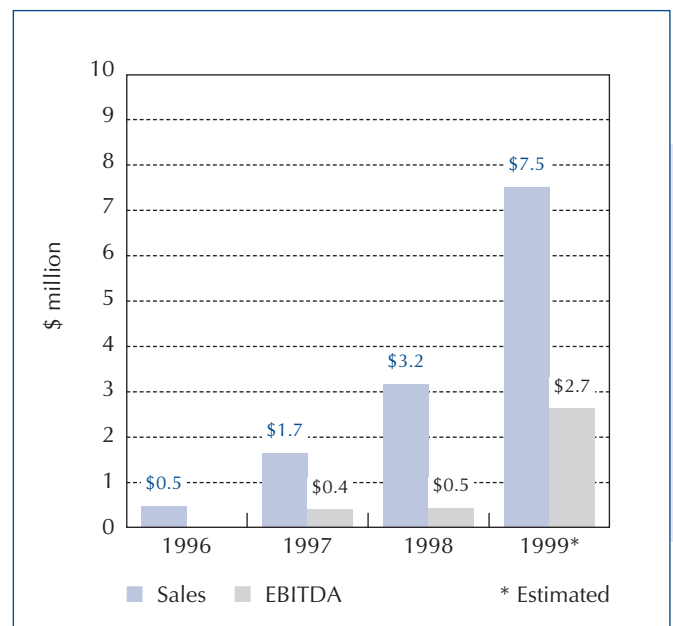
VALUE ADDED

The principal value Innova added, apart from financial, M&A and strategic assistance, was to convince management to expand into large-format premium boards at a critical time in the market's evolution. The company quickly became a leader in this area and around 50% of Innova's return on exit was attributed to these new formats. Ray Lord and Piotr Bochinski, principal shareholders of Town & City, sum up Innova's contribution: "Innova led two add-on acquisitions and the debt financing. Then they did a phenomenal job managing the exit. We made significantly more than we would have done without them."

Billboard development 1996-1999



Financial performance 1996-1999



Hungary-based internet games developer makes global impression

- Activity:
Internet
- Country:
Hungary
- Private equity investor:
Euroventures
Hungary
- Capital invested:
\$1m
- Type of deal:
Start-up
- Initial investment:
1996
- Exit:
1998

Uproar

As a small start-up developing interactive games for the internet, Budapest-based Uproar needed investment to fund ongoing games development and marketing. Euroventures invested a total \$1m, taking a 40% stake in the business. The company soon became one of the most visited non-pay internet games sites in the world, with tens of thousands of registered users. Exiting the business via a Vienna Stock Exchange initial public offering in 1998, Euroventures realised \$6.1m, which represented a 6-times cash multiple and a 227% IRR. Post-exit, Uproar progressed to a successful Nasdaq flotation in 2000, before being bought by Vivendi the following year.

COMPANY BACKGROUND

Uproar was launched as a four-person start-up in 1994 to develop interactive games for the internet. With a background in CD-ROM business information publishing, Uproar's management had the technological skill-set, advanced programming capability, experience and discipline that set it apart from most other dotcom pioneers. The company showed clear potential, but it needed funding to translate groundbreaking technologies into registered users.

INVESTMENT

When it first approached Euroventures in September 1995, Uproar presented a powerful and compelling proposition. *"Its internationally experienced management really seemed to understand how to exploit Hungary's programming skills to mount an assault on the internet with leading-edge technology,"* says Euroventures investment manager Tom Howells. In March 1996, Euroventures invested \$500,000 in a loan initially convertible into a 35% equity stake. Participation in two follow-on rounds of equity finance, as well as a short-term loan, brought Euroventures' total investment up to \$1m.

COMPANY PERFORMANCE

The capital was put to work immediately, funding the development of increasingly sophisticated game platforms and developing marketing resources to target the North American market, which had been identified early on as Uproar's most fertile source of future business. The expansion plan quickly began to pay off, with steady growth in the number of registered users, and with sales offices opening in London and New York in due course. Uproar was in good shape from the outset and its governance and internal controls needed little attention from Euroventures.

Uproar was a true pioneer in the internet games arena, developing one of the first game "chatrooms" for its users. Crucially, its management had the vision to convert innovation into commercial results. Numbers of registered users surged from zero in 1996 to 250,000 by 1998, making Uproar one of the most visited non-pay sites in the world. In common with other dotcom businesses, revenues initially remained low. The plan was to grow turnover via online advertising.

The objective had been an IPO from the outset and by 1998, with dotcom listings more and more frequent, the company was floated on the Vienna Stock Exchange. At this stage, Uproar had grown to a 100-employee business, and the listing valued it at approximately \$50m. Euroventures exited at this point. Uproar subsequently listed on Nasdaq in 2000, which valued the company at \$660m – a tenfold increase in just two years. After the general fall in internet valuations, the company was acquired by Vivendi at an effective valuation close to the price achieved by Euroventures on exit.

EXIT

Initially, Uproar's 1998 Vienna Stock Exchange IPO was intended to attract mutual funds from emerging markets to invest alongside existing shareholders. However, given the company's established market position, as well as the stock's popularity and value, Euroventures decided to exit the business at that point. In selling its stake, Euroventures realised \$6.1m, achieving a 6-times cash multiple and a 227% IRR.

Start-up funding supported Uproar's initial development from concept to reality over a two-year period. The company became a forerunner in the global non-pay internet games market, initially listing on the Vienna Stock Exchange and two years later on Nasdaq, with the business valued at \$660m at its peak.

VALUE ADDED

Euroventures added value principally by backing management's ambitious strategy in games development and marketing, and by providing funding at a formative and critical stage in Uproar's development. The investor's involvement in the Vienna IPO process, through which the company accessed new sources of funding that underpinned its strong growth over the next two years, was also important.

MBO of Czech pharma business paves way to a landmark IPO

- Activity:
Pharmaceuticals
- Country:
Czech Republic
- Private equity investor:
Warburg Pincus
- Capital invested:
\$125m
- Type of deal:
Management buyout
- Initial investment:
1998
- Exit:
2004 (partial)

Zentiva

As a leading Czech generic drugs manufacturer, Léčiva presented an excellent platform on which to build an international generic pharmaceutical business with fully integrated development, manufacturing, sales and marketing. Zentiva a.s. was created in 1998 as an acquisition vehicle to enable Warburg Pincus to fund the buyout of Léčiva. Investing a total \$125m, Warburg Pincus ultimately acquired a 99.25% stake in the company. Since then the business has flourished, achieving strong increases in turnover and margins, expanding internationally, acquiring its rival Slovakofarma in 2003 and conducting a \$200m initial public offering on the Prague Stock Exchange in 2004. Based on the company's market value at the time of writing and through partial exits to date, Warburg Pincus' investment has already grown 5.25 times in value.

COMPANY BACKGROUND

In 1991, Léčiva was a centrally controlled drugs manufacturer with limited sales capability. By the time Warburg Pincus decided to invest in 1998, it had become a publicly quoted business, 66.6%-owned by the Czech National Property Fund. At the time, Léčiva ranked number one in the Czech generics market and number two in Slovakia. To prepare Léčiva for sale to international investors, and to reassure the western companies with which it had licensing agreements, its management had been actively upgrading the business. Specifically, it was bringing manufacturing operations into line with good manufacturing practice standards, divesting non-core assets and streamlining the workforce. However, by 1998, when sales reached \$157.5m, the company needed greater strategic focus to fulfil its potential.

INVESTMENT

Warburg Pincus created Zentiva in May 1998 as the acquisition vehicle for a management buyout of Léčiva from the Czech National Property Fund. Initially the investor acquired a 66.6% equity stake in Léčiva. Warburg Pincus then financed subsequent tender offers for the remaining 33.4% held by public shareholders, ultimately acquiring 99.25% of the equity, and taking its total investment up to \$125m.

COMPANY PERFORMANCE

Zentiva was facing fast-growing competition from local generics manufacturers and global pharmaceutical firms. Lacking sales and marketing infrastructure, and with few new products ready for market, the company was vulnerable. Warburg Pincus and the management worked together to address these weaknesses by developing a pipeline of generic products for launch once the original drugs came off patent, and investing in sales and marketing capabilities. Both initiatives proved successful. The sales force quadrupled during the investment period and the business launched 29 new products and 95 line extensions in seven territorial regions between 1998 and mid-2004. In addition, the firm built a pipeline of generics to be launched through 2009.

Another priority was to ensure a more active management of working capital. This too proved successful, with working capital as a percentage of sales falling from 48% in 1999 to less than 35% at the end of 2003. Over the same period, gross margins rose from 39.6% to 59.6%, with net income rising by a compounded annual growth rate of 27%. The management team was also strengthened, with six of its key members recruited after the buyout.

In a milestone deal in August 2003, Zentiva acquired Slovakofarma, one of the largest pharmaceutical companies in the Czech Republic and Slovakia. Zentiva thus became the clear leader in the Czech and Slovak pharmaceutical markets, and also established operations in Poland, Russia, the three Baltic countries, Uzbekistan and Georgia. Its business comprises 73% branded generics, 10% in-licensed pharmaceuticals, 13% over-the-counter pharmaceuticals and 4% active pharmaceutical ingredients. With 2003 sales of \$376m and EBITDA of \$101m, Zentiva became the fifth-largest pharmaceutical company in Central and Eastern Europe. In June 2004 the company floated on the Prague Stock Exchange in a landmark IPO that was five times over-subscribed.

EXIT

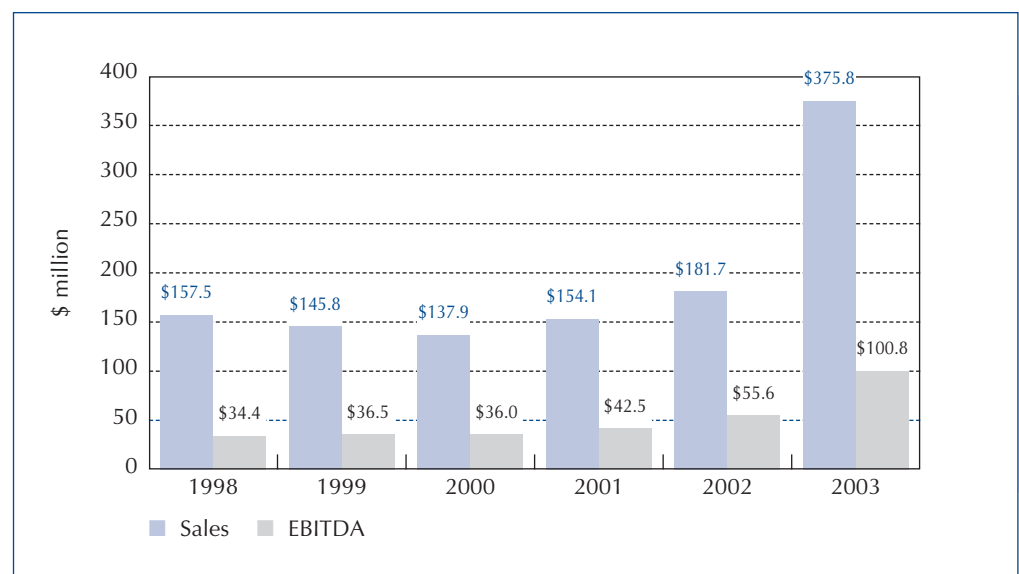
Warburg Pincus remains a strong and active long-term investor, with no immediate plans to exit. However, partial exit has already been achieved in two ways. As a result of the company's strong cash flow, Zentiva was able to pay out significant dividends equivalent to the entire cost of the original investment. In addition, Warburg Pincus sold approximately \$91m of secondary shares during the IPO. At the time of writing, Warburg Pincus's remaining stake was valued at \$440m. Assuming a full exit at this valuation, the total return would generate an IRR of 36% and a cash multiple of 5.25 times the total \$125m original investment.

Management buyout funding and follow-on investment paved the way for this local generics drug manufacturer to float successfully on the Prague Stock Exchange. The result was substantial wealth creation for management and investors and the development of one of Central and Eastern Europe's largest pharmaceutical businesses.

VALUE ADDED

Since its investment, Warburg Pincus has helped the company to strengthen senior management, assisted with the development of its business plan and supported the execution of its expansion into Poland and Russia. In addition, the investor helped transition the company from a manufacturing to marketing focus, reduce its reliance on in-licensed products, and upgrade reporting and financial systems. In 2003, Warburg Pincus advised management on the key acquisition of Slovakofarma. The investor has also ensured that Zentiva benefits from world-class consultancy advice; for example, AT Kearney was brought in to help develop key performance indicators for the company based on a balanced scorecard.

Financial performance 1998-2003



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