

Leading the way or
jumping the gun?
Central Europe
Private Equity
confidence survey



Introduction



Optimism is growing amongst the private equity community in Central Europe. The results of our latest Private Equity Confidence Survey shows confidence returning to almost pre-crisis levels. The financial shock to the economies of Central Europe was significant; many believed that the higher operating leverage of PE backed businesses would lead to increased levels of distress but in most cases this has not been borne out. Just as the decrease in confidence was dramatic, the return of a more optimistic outlook has been equally as swift. Is this a sign of the 'Green shoots' that have been so eagerly awaited?

Whilst it appears that Private Equity is back on track, industry professionals need to be cautious that it is not a false dawn. Negative impacts of the financial crisis will continue to be felt, debt markets are still restricted and in the short term we expect there to be continued fall out with some of the weaker companies that have been less responsive in tackling the crisis failing.

However, where there is corporate adversity there is also opportunity. Seven percent of respondents expect to have a strong focus on distressed targets or those requiring restructuring over the coming period. We expect this trend to develop further as recent examples of successful transactions involving distressed entities gain traction. With the financial environment stabilising and new opportunities in distressed sales coming on line there could be good reasons to justify the increase in confidence.

A handwritten signature in blue ink that reads "Garret Byrne". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Garret Byrne
Partner
M&A Transaction Services Leader
Central Europe

October 2009

Overview

Key findings

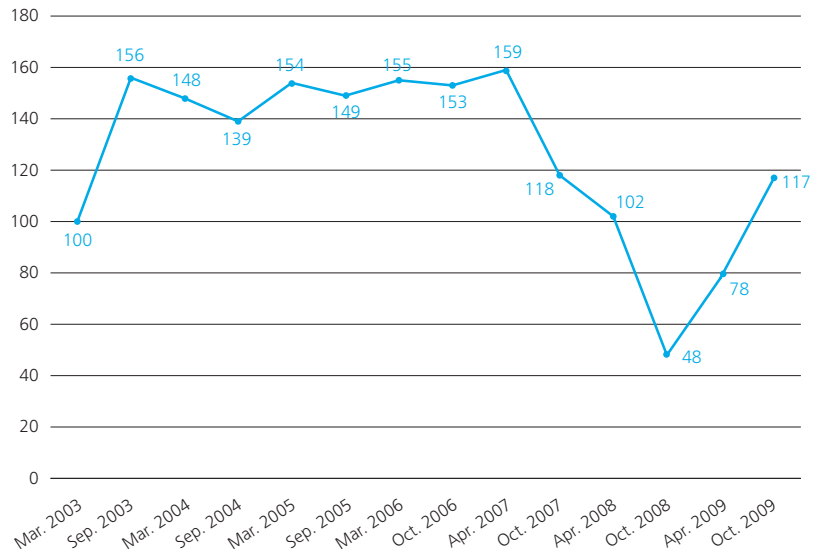
- The consensus view in the autumn of 2009 shows that confidence amongst PE professionals has continued to increase and is now approaching pre-crisis levels.
- Debt markets continue to be frozen but 'spring' is expected to come soon.
- New investments predominantly in market leaders will be the main focus of private equity funds in the next six months.
- PE in Central Europe will also focus on opportunities arising from distressed transactions.

Central European Private Equity Index

It appears that we have Reached the Bottom and confidence amongst PE professionals in CE has continued to increase from the lows reached at the end of 2008. The decline in the CE PE Confidence index during the financial crisis was sharp and deep, decreasing by 70 points from 118 in October 2007 to 48 by October 2008. However, the recovery in confidence has also rebounded equally as sharply, recovering 69 to 117 by October 2009.

The October 2009 survey shows that only a small minority of PE practitioners now expect the economic environment to deteriorate further and 71% of respondents expect the GDP growth in Central Europe to be as strong as Western Europe if not higher. This bullish view of the macroeconomic environment in Central Europe supports the increase in optimism.

Central Europe PE Confidence Index

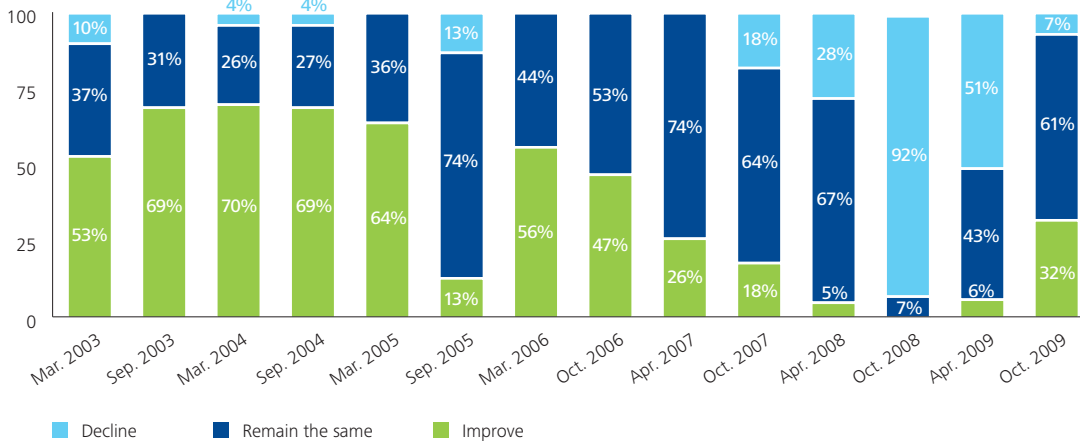


Availability of credit appears to have stabilised but of possible concern is that a majority of respondents still expect the debt markets to be restricted with only a minimal increase in the proportion expecting an improvement in the credit markets.

Not all companies in Central Europe have fared so well. We have seen an increase in the number entering bankruptcy or other insolvency proceedings; high profile examples include Kordarna, NCHZ, SkyEurope and ORCO Property, to name but a few. These distressed entities represent opportunities for investors to buy assets cheaply for those with the appropriate risk appetite and mandate.

Survey results

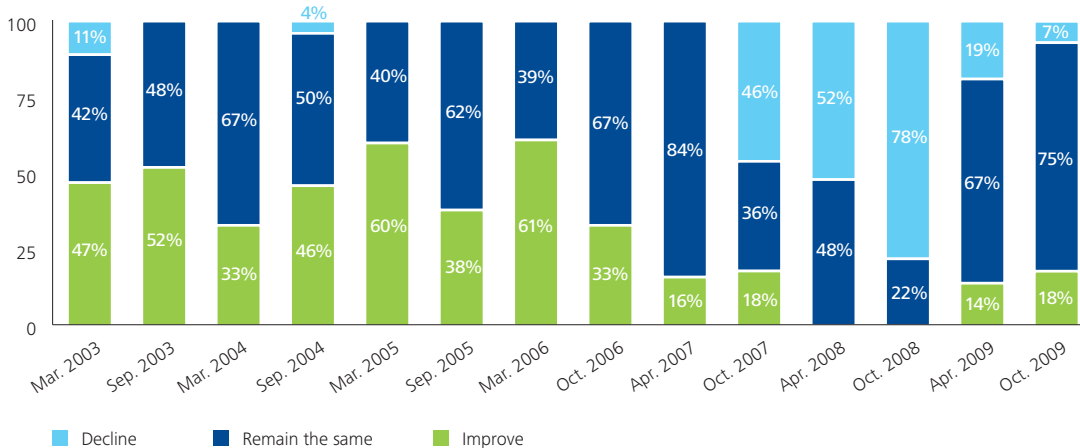
For this period, I expect the overall economic climate to:



Economic climate

The overall economic climate is expected to rebound in the next six months and return to growth. Over 90% of respondents expect the economy to stabilise or improve.

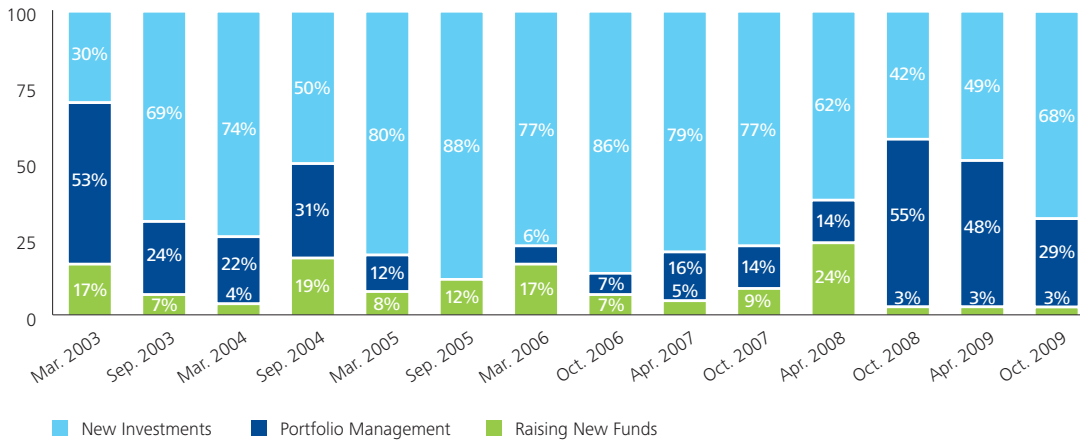
For this period, I expect the availability of debt finance to:



Debt availability

Even though overall prospects are improving, financing and debt markets are expected to remain inhibited. The proportion of respondents seeing an improvement is steadily increasing.

For this period, I expect to spend the majority of my time focusing on:

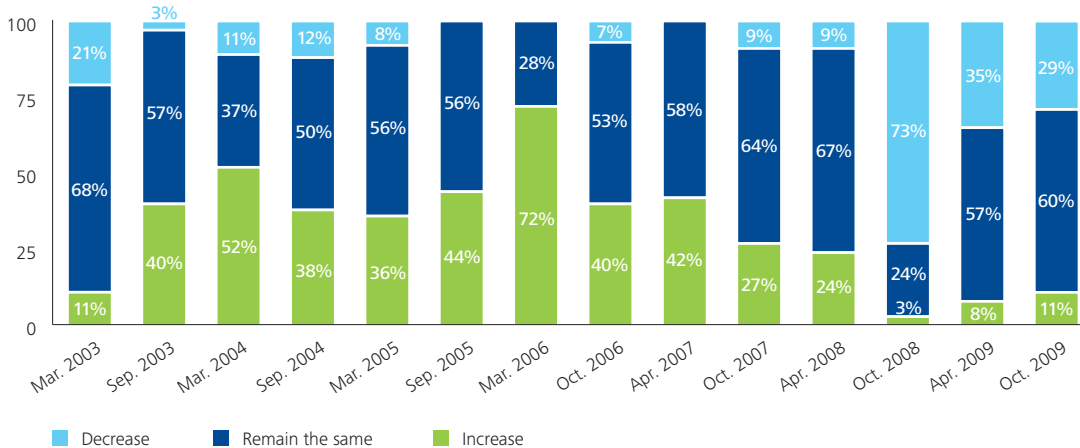


Investors' focus

Private Equity investors are expecting to move away from portfolio management to concentrate on new investments.

Fund raising is off the agenda reflecting a high level of existing funding in place - so called "dry powder".

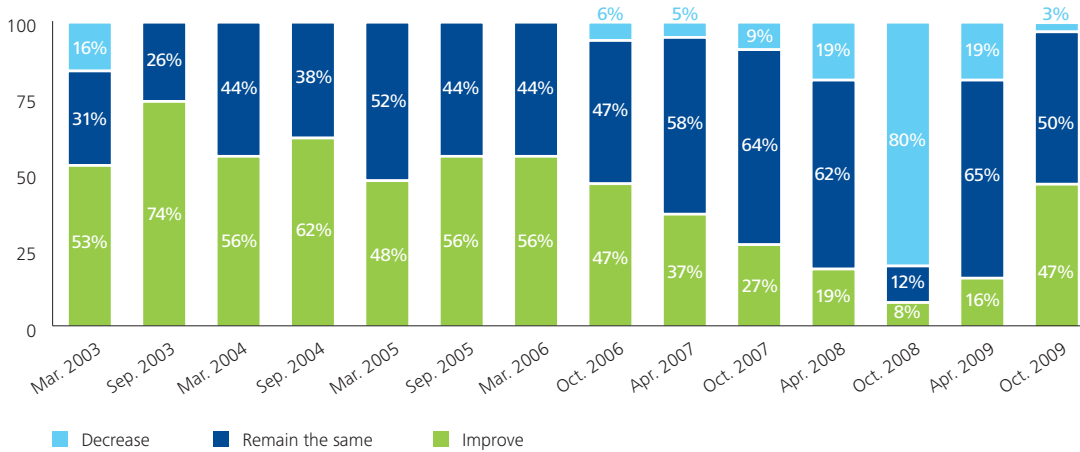
For this period, I expect the average size of transactions to:



Size of transactions

Limitations of debt markets will hamper leveraged buyouts, as such private equity professionals will continue to focus on midsize targets.

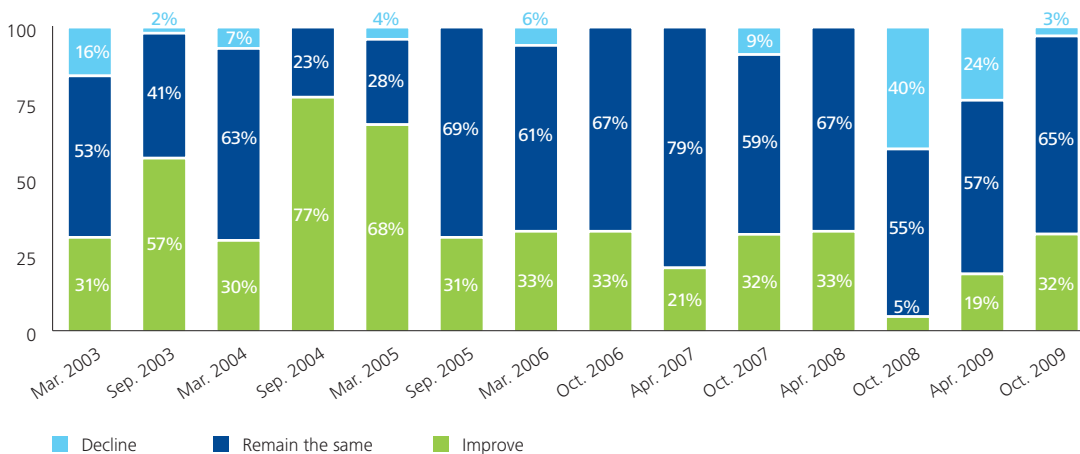
For this period, I expect the overall market activity to:



Market activity

After a period of stabilisation PE professionals expected M&A market activity to improve.

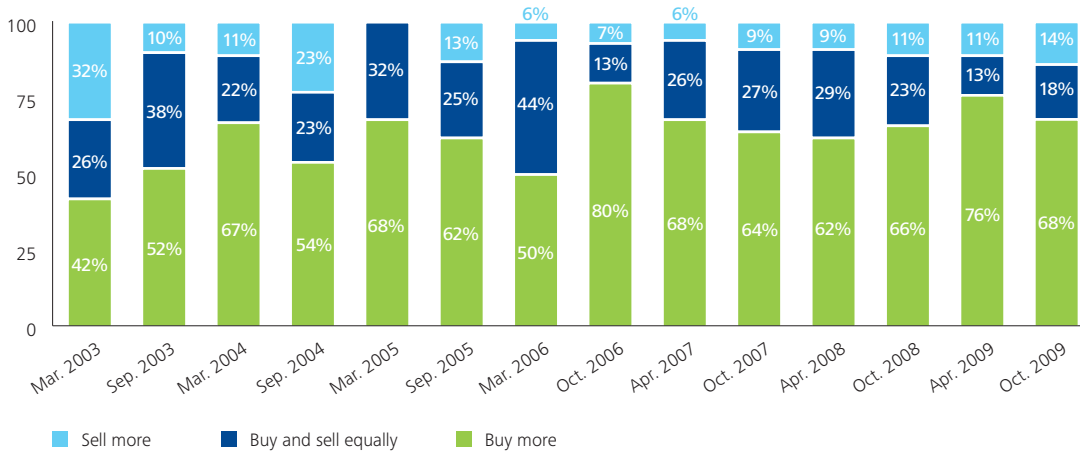
For this period, I expect efficiency of my financial investments to:



Investment return

An improving overall economic climate and reinvigoration of M&A markets will provide a favourable environment for private equity funds to generate higher levels of returns on their investments.

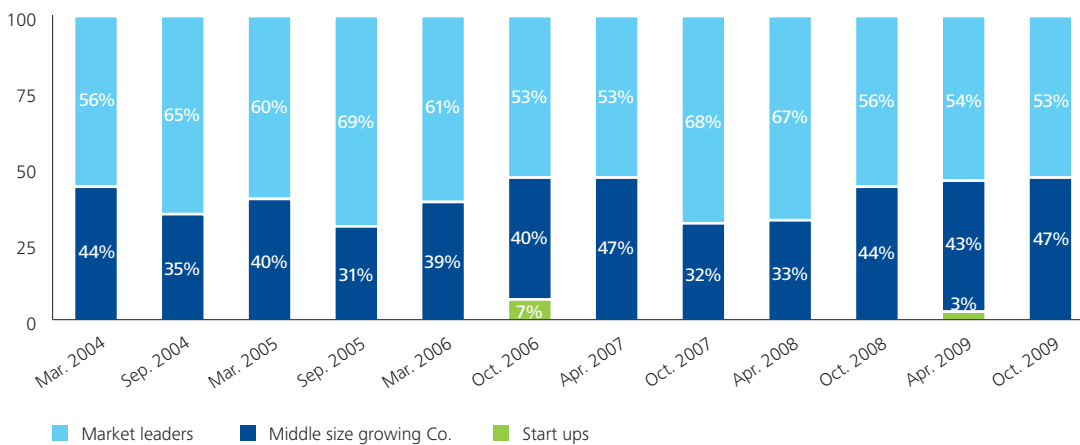
For this period, I expect to:



Investors' activities

Most of the respondents display an inclination to buy more, which is consistent with the expected improvement of market activity.

For this period, I expect the highest competition for new investment opportunities in:



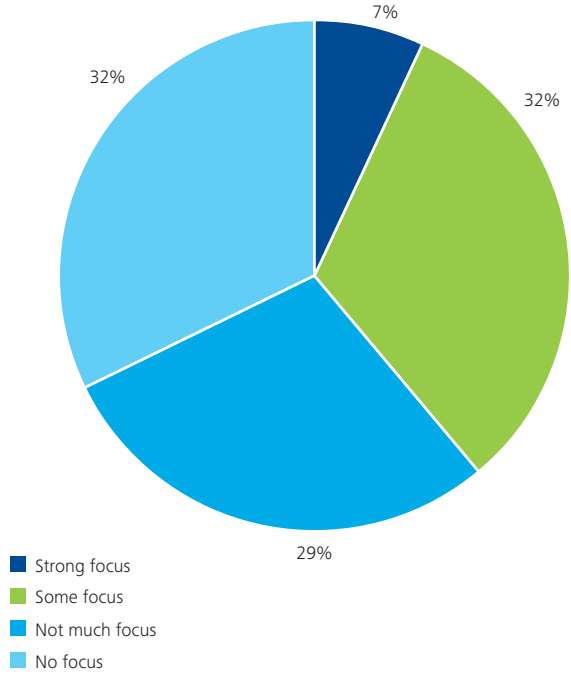
New investments competition

Market leaders will remain the most desired target for PE funds in CE.

Interest focus

In the current economic environment, distressed companies and companies in restructuring are becoming important targets for deal makers with almost 40% of respondents viewing such companies as interesting.

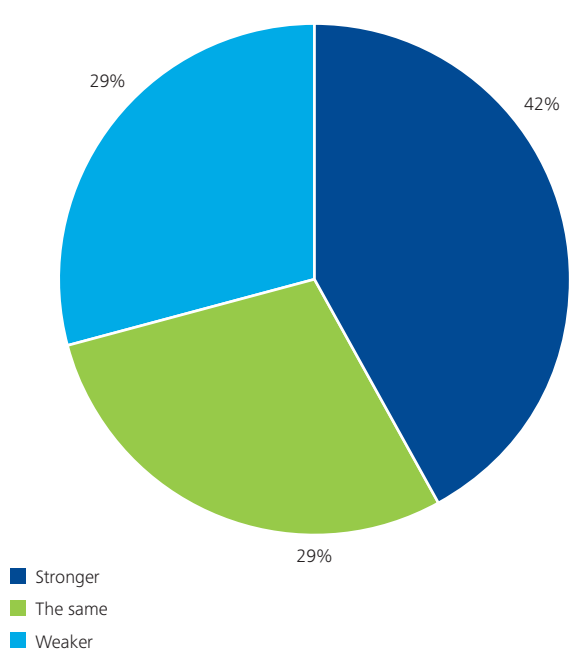
For this period, I expect to focus on opportunities that involved distressed targets and restructuring:



Development of GDP

A significant proportion of respondents expect that the economies of Central Europe will outperform those of Western European countries.

For this period, I expect GDP growth in Central Europe versus Western Europe to be:



Fund raising

Company	Fund	Period	Value m Euro	Status	Description
ARX Equity Partners	ARX CEE III	Aug 2009	102	Second close	ARX Equity Partners has completed a second closing on its third dedicated CEE focused lower mid-market fund. The fund has a target value of EUR 125m and is expected to perform a final close in Q1 2010.
Genesis Capital	Genesis Private Equity Fund II	July 2009	40	First closing	Genesis Capital has completed the first closing of Genesis Private Equity Fund II with €40m in commitments. The target size of the fund is €60m.

Selected significant exits

Company	Country	Seller	Buyer	Period	Value m Euro	Stake	Description
AVG Technologies CZ s.r.o	Czech Republic	Intel Capital Enterprise Investors (EI) Benson Oak	TA Associates Inc	October 2009	136.5	25%	TA Associates Inc, the US based private equity firm, has acquired 25% stake in AVG Technologies CZ s.r.o, the Czech Republic based provider of anti-virus, firewall protection and Internet security solutions software, from Benson Oak Capital, the Czech Republic based private equity firm, Intel Capital, the US based venture capital firm.
Nowaco Czech Republic s.r.o	Czech Republic	Bancroft Private Equity LLP CCMP Capital Advisors LLC	The Bidvest Group Limited	September 2009	250	n/a	The Bidvest Group Limited, the listed South African investment holding company comprising of a services division, foodservice products division and the commercial products division, has agreed to acquire Nowaco Czech Republic s.r.o., the Czech Republic based distributor of chilled and frozen food, and FARUTEX Sp. z o.o., the Poland based food distributor of chilled and frozen food, from Bancroft Private Equity LLP, the UK based private equity firm, and CCMP Capital Advisors LLC, the listed US based private equity firm.
FARUTEX Sp. z o.o	Poland						
Bankier.pl SA	Poland	MCI Management SA	MIH Allegro B.V.	September 2009	12.3	18.4%	MIH Allegro B.V, the Poland based investment holding company having interest in portal and subsidiary of MIH BV, the South Africa based holding company having interests in internet and telecom services and a subsidiary of Naspers Ltd, the listed South Africa based internet and telecom services provider, has agreed to acquire Bankier.pl SA.

Company	Country	Seller	Buyer	Period	Value m Euro	Stake	Description
GiTy a.s.	Czech Republic	Arca Investments a.s.	JVS Group s.r.o.	July 2009	n/a	n/a	JVS Group sro, the Czech Republic based investment company with operations in advertising and marketing, has acquired GiTy AS, the Czech Republic based land-based and satellite telecommunication services company, from Arca Capital Bohemia a.s, the Czech Republic based private equity firm, and Mr. Valentin and Mrs. Girstl, the Czech Republic based private investors and founders of GiTy a.s.
Mobile Entertainment Company Sp. z o.o	Poland	Penta Investments Limited	MoCoHub Technology Development S.A.	May 2009	n/a	100%	MoCoHub Technology Development SA, the Poland based company operating as a mobile content provider, has acquired Mobile Entertainment Company Sp. z o.o, the Poland based company operating as a mobile virtual network operator, from Penta Investments Limited for undisclosed value.

Investments

PE House	Country	Company	Period	Value m Euro	Stake	Description
EQT Partners AB	Poland	HTL-Strefa S.A.	October 2009	210.4	100%	EQT V Ltd has announced a public tender to acquire all outstanding shares in HTL-Strefa S.A., the Warsaw Stock Exchange listed manufacturer of safety and personal lancets for capillary blood sampling. The tender price represents a 12.7% premium compared to the volume weighted average market price of the shares during the six month period directly preceding the date of announcement of the offer.
CVC Capital Partners	BiH, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia and Slovakia	Anheuser-Busch InBev's Central European operations	October 2009	C. 1,500	n/a	CVC Capital Partners has entered into a definitive agreement to acquire Anheuser-Busch InBev's (ABI) Central European brewing and distribution operations. In addition to the enterprise value ABI has additional rights for future payments based on CVC's return on its initial investment. Closing of the transaction is subject to customary conditions, including regulatory clearances. The transaction is expected to close by January 2010.

PE House	Country	Company	Period	Value m Euro	Stake	Description
Mid Europa Partners LLP	Hungary	Invitel Holdings A/S	September 2009 - pending	740.2	65%	Mid Europa Partners LLP (MEP) has signed an agreement to acquire a 64.6% stake in Invitel Holdings A/S from TDC A/S. Invitel Holdings A/S, a listed Hungary based company, is a provider of fixed line telecommunications and broadband internet services.
GED Iberian Private Equity	Romania	SC Total Eurobusiness SA	August 2009	6.0	60%	GED Iberian Private Equity, the Spanish private equity firm, has acquired a 60% stake in SC Total Eurobusiness SA, the Romania based developer of cogeneration machinery and equipment, for a consideration of EUR 6m.
EQT Partners AB	Bulgaria	CableTel AD	August 2009	n/a	100%	EQT V Ltd, has acquired CableTel AD, the Bulgarian cable and telecom operator, from Ramford Alliance Ltd, the UK based company active in finance and investment and acquisitions in the telecom and media industries, for an undisclosed consideration.
SGAM AI Private Equity	Poland	Konsalnet SA	July 2009	22.1	80%	SGAM AI Private Equity acquired an 80% stake in Konsalnet SA, the Poland based security services firm, from investors including Tomasz Banaszkiwicz and Wieslaw Bednarz, the Polish private investors, for an estimated consideration of PLN 100m (EUR 22.05m). Konsalnet SA generated a turnover of PLN 300m (EUR 66.14m) for the fiscal ended 2008.
Penta Investment Limited	Poland	Fabryka Lin i Drutu Drumet Sp. z o.o.	June 2009	26.5	n/a	Sidonia Holding Company Limited, the investment holding company of Penta Investments Limited, won the auction to acquire Fabryka Lin i Drutu Drumet Sp. z o.o., the Poland based manufacturer of steel ropes and wires producer, for consideration of PLN 120m (EUR 26.45m). Drumet had filed for Bankruptcy in January 2009. As per the terms of agreement, Penta will pay the consideration in 7 installments until 2014.
Enterprise Investors	Poland	Web Inn	June 2009	3.6	100%	Enterprise Investors Venture Fund acquired 100% of Web Inn, a fast growing Polish IT outsourcing company, for approx. €3.6m.
Enterprise Investors	Poland	R&C Union	May 2009	3.0	47.9%	Enterprise Investors Venture Fund signed an agreement to buy 47.9% of R&C Union, one of the biggest Polish restaurant and music clubs chains, for approx. €3m.
Mid Europa Partners	Slovenia	UPC Slovenia	May 2009	n/a	100%	Mid Europa Partners entered into an agreement to acquire 100% of the Slovenian cable and broadband operator UPC Slovenia from Liberty Global, Inc. The acquisition is subject to closing conditions.

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