Private Equity in Central & Eastern Europe
SECA Private Equity & Corporate Finance Conference

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Take advantage of our experience.
Central and Eastern Europe
Target Region

- Latvia
  Population: 2.2m
  GDP (PPP): $32.2bn

- Lithuania
  Population: 3.6m
  GDP (PPP): $56.2bn

- Estonia
  Population: 1.3m
  GDP (PPP): $24.5bn

- Poland
  Population: 38.5m
  GDP (PPP): $721.7bn

- Czech Republic
  Population: 10.2m
  GDP (PPP): $261.5bn

- Slovakia
  Population: 5.5m
  GDP (PPP): $121.3bn

- Hungary
  Population: 9.9m
  GDP (PPP): $190bn

- Slovenia
  Population: 2.0m
  GDP (PPP): $190bn

- Croatia
  Population: 4.5m
  GDP (PPP): $56.8bn

- Romania
  Population: 22m
  GDP (PPP): $253.3bn

- Bulgaria
  Population: 7.2m
  GDP (PPP): $91.8bn

- Russia
  Population: 139.3m
  GDP (PPP): $2'229.0bn

- Turkey
  Population: 77.8m
  GDP (PPP): $958.3bn

EU Member States since 2004
EU Member States since 2007

Source: CIA World Fact Book 2010
Private equity in CEE and Russia/CIS has outperformed all other markets globally.

Sources: End-to-end returns, net of fees and expenses, as of December 31, 2009; Cambridge Associates, EBRD Fund Performance Report 2010, EVCA (EVCA data in EUR, other data in USD).
Note: The European Bank for Reconstruction and Development, London, is the largest private equity investor in CEE and Russia & CIS, with aggregate commitments of over EUR 2.3b. EBRD data is the most representative sample of private equity returns in the region.
Why CEE Private Equity
Attractive Risk/Return Profile

- Good growth – good risk
  - GDP growth in New Europe significantly stronger than in developed markets
  - Yet investment environment offers ‘developed market-risk’ as all CEE countries are democracies and most members of the European Union, with stable legal and regulatory frameworks and a developed market infrastructure

- Low supply of private equity capital facing large set of investment opportunities
  - As opposed to other Emerging Markets, CEE/CIS has never suffered from a capital overhang
  - Low competition and attractive entry valuations
  - Debt levels deployed in buyouts have always been conservative
  - Deal flow dominated by small and mid market buyouts and late stage expansion financing

- Universe of experienced fund managers raising their funds III, IV, V, VI and in one case even VII
  - Private equity managers with skills and experience who have gone through different market cycles and can show realized track records
  - No need to pay for first time managers’ learning curve or rely on ‘paper track records’

- Active exit markets and dual exit route available (trade sale and IPO)
  - Strong M&A activity as CEE boasts growing consumer markets
Macroeconomic Environment

CEE Countries Returning to Growth

- With the exception of Romania, every country in the CEE region showed positive GDP growth figures in 2010.
- CEE countries have recovered from a difficult 2009.
- The crisis has highlighted the differences in economic strength among the CEE countries.
- The Central European economies have returned to their growth path, whereas recovery in Romania will only come in 2011.
- Forecasts for Russia’s economy predict strong growth in 2011 and 2012.
- Public and household debt figures are more solid in CEE than in many Eurozone countries; prospects best in countries with strong macroeconomic fundamentals, foremost Poland and the Czech Republic, as well as Russia.
Macroeconomic Environment

CEE Countries Returning to Growth

- The convergence story remains intact and countries will continue to grow at a higher rate than Western Europe

Source: UniCredit
In the last 17 months, the major currencies in the CEE region have stabilised against the Euro.

Source: Reuters
Macroeconomic Environment
Public Equity Markets Showing Strong Performance

- In the last 17 months, CEE equity markets have performed well

Source: Reuters (in local currencies)
Macroeconomic Environment

CEE Public Debt Levels Remain Low

- Public debt figures are lower than in key Western European countries

Source: CIA World Factbook
Investment Environment in New Europe
Stable Framework and Pro-Business Environment

- All CEE countries have democratic governments

- Legal and regulatory frameworks adapted to EU standards (protection of ownership and IP, introduction of strong corporate and bankruptcy laws, improvement of law enforcement and judicial process etc.)

- Wide acceptance of international accounting standards, transparency standards and corporate governance rules

- Western professional service providers operating throughout the region

- Government influence substantially downsized

- Leverage and mezzanine capital available

- Lower tax rates and simpler tax systems than in EU-15, freer / less regulated labor markets and simple business start-up regulation encourage entrepreneurial endeavor

- No capital transfer restrictions
Despite growing fundraising until 2008, CEE/CIS remains underserved with equity capital and never suffered from a capital overhang.

Deal competition is significantly lower than in Western markets or the markets of Emerging Asia, which have been flooded with capital, with more than USD 29b raised in 2007, USD 40b in 2008, USD16b in 2009 and USD 14b in 2010.

Sources: EMPEA Fundraising & Investment Review 2011; ALPHA; EVCA
CEE Private Equity Market
Universe of Experienced Fund Managers

- EVCA reports ca. 80 active managers in the new EU countries; additional ca. 20 in Russia/CIS
- Universe of approx. 100 managers, including over 40 “institutional quality“ managers
- Private equity industry in CEE started in the early 90s; growing number of fund managers who are raising 4th, 5th or 6th generation fund
- Strong development of operational and transaction skills and know-how
- Many track records exceed 10 years and managers have invested through different economic cycles
CEE Private Equity Market
Mid Market Buyouts & Late Stage Expansion Capital

Investment Opportunities
- Privatizations
- Start-up financing
- Early stage expansion financing
- Industry consolidation
- Late stage expansion financing
- MBOs & LBOs

Investment Risk
- Early – mid 90s: Political hurdles, Need for restructuring, Lack of experienced local management
- Late 90s: Unproven business concepts, Capital-intensive businesses
- Mid ‘00s: Profitable, growing businesses, Experienced local management, Availability of debt and mezzanine
## Is Eastern Europe still an Emerging Market?
### Attributes of the CEE Private Equity Market

<table>
<thead>
<tr>
<th>EMERGING MARKET</th>
<th>DEVELOPED MARKET</th>
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<tbody>
<tr>
<td><strong>GDP Growth</strong></td>
<td>✓</td>
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<tr>
<td><strong>Reliability of Legal &amp; Regulatory Framework</strong></td>
<td>✓</td>
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<tr>
<td><strong>Banking Environment &amp; Availability of Leverage</strong></td>
<td>✓</td>
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<tr>
<td><strong>Capital Supply / Entry Valuations</strong></td>
<td>✓</td>
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<tr>
<td><strong>Universe, Track Record &amp; Quality of Fund Managers</strong></td>
<td>✓</td>
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<tr>
<td><strong>Type of Investments</strong></td>
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<tr>
<td><strong>Availability of Exit Routes</strong></td>
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