

Central & Eastern Europe: The Right Time to Think Again About Investing in CEE

Swiss Private Equity & Corporate Finance Conference
Zurich, July 2016

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Introduction to TRG

Introduction

- Founded in 2002, The Rohatyn Group (“**TRG**”) is one of the largest, most experienced EM Private Equity fund managers globally
- Since 2005, TRG PE funds have¹:
 - Invested more than \$6bn in over 140 transactions across 31 EM countries; and
 - Returned approximately \$2.6bn to investors in the past 24 months
- Majority of TRG’s PE team joined as part of a spin out of the CVCI team from Citi in late 2013
 - CVCI was formerly Citi’s in-house global EM PE business
- c. \$4 billion AUM across private and liquid markets²

¹ Includes TRG Growth Fund I, TRG Growth Fund II, TRG Growth Fund co-investments, TRG Special Opportunity Fund, TRG Africa Fund and TRG Latin America Private Equity Fund. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

² As of July 2016. AUM includes assets managed by ARCH Capital Management Co. Ltd. (“ARCH”), a 50%-owned subsidiary of The Rohatyn Group and Capital Advisors Partners Asia SDN BHD (“CapAsia”), a 60% owned subsidiary of The Rohatyn Group.

A Global Firm With Deep Local Presence Across Emerging Markets¹

- **Deep Sector Network:** facilitates sourcing deals/add-ons, management upgrades, and exits
- **International Connectivity:** facilitates regional and international growth in addition to purely domestic growth
- **Experienced Global Team:** 30 private equity investment professionals across 10 offices in 9 countries

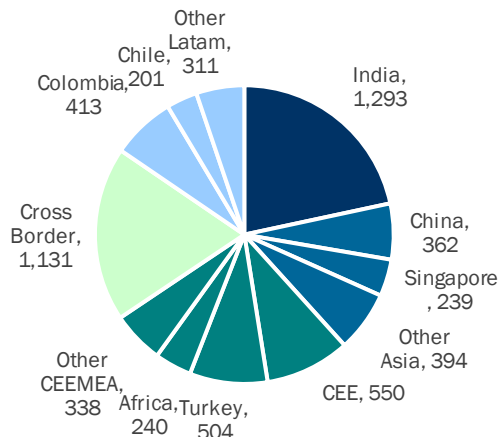


¹ As of July 2016. Shanghai office managed by ARCH. Kuala Lumpur and Jakarta offices managed by CapAsia.

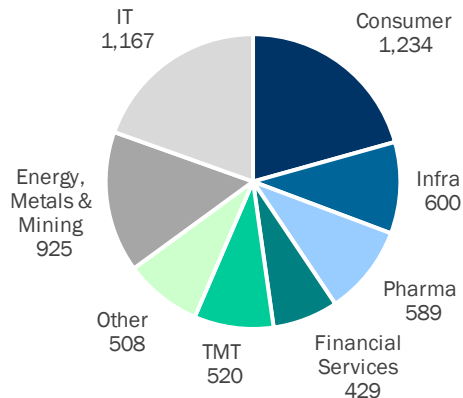
TRG Private Equity Investment Summary¹

One of the largest EM PE firms globally with almost \$6bn deployed since 2005 and almost \$2.6bn returned to investors over the past 18 months

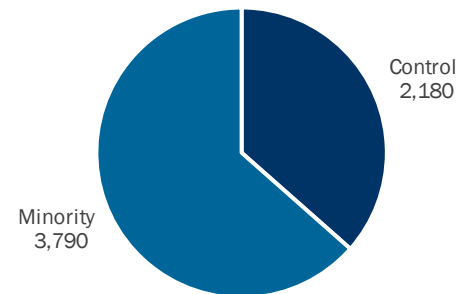
By Region



By Sector



By Ownership Stake



¹ Includes TRG Growth Fund I, TRG Growth Fund II, TRG Growth Fund co-investments, TRG Special Opportunity Fund, TRG Africa Fund and TRG Latin America Private Equity Fund. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Note: Other includes Argentina, Azerbaijan, Brazil, Kazakhstan, Mexico, Paraguay, Philippines, Saudi Arabia, UAE, Uruguay and Uzbekistan.

CEE – Market Opportunity

What We Define As CEE

- We focus on the highlighted 10 countries across CEE (the “Region”)
- These countries are the markets where we see the most interesting transactions and market opportunity
 - At present, we do not focus on Russia, former CIS or former Yugoslavia
- Since 2005, TRG has invested c. \$1 billion and returned c. \$1.5 billion thus far from this Region¹



¹ Includes TRG Growth Fund I, TRG Growth Fund II, TRG Growth Fund co-investments and TRG Special Opportunity Fund. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

Framing the Market Opportunity

- In recent years CEE has been out of focus due to a combination of:
 - General lack of growth
 - Macro-political issues impacting countries bordering the Region
 - Mixed historical performance of PE managers
- This has resulted in a reduction in the number of PE managers and a general shortage of capital across the capital structure
- However, the market is now oversold in our opinion
- TRG expects the Region will experience strong growth over the next decade driven by continued convergence to Western Europe

CEE Economic Highlights

- Combined 175 million population
- Combined GDP of c. \$2.2 trillion
- Strong growth prospects: all exceed the 2.0% Bloomberg forecast for developed markets

Poland	
Population	38mm
2014 GDP	\$547bn
2016 Growth Proj.	3.5%

Slovakia	
Population	5mm
2014 GDP	\$100bn
2016 Growth Proj.	3.3%

Czech Republic	
Population	11mm
2014 GDP	\$206bn
2016 Growth Proj.	2.7%

Hungary	
Population	10mm
2014 GDP	\$137bn
2016 Growth Proj.	2.4%

Baltics (Estonia, Latvia, Lithuania)	
Population	6mm
2014 GDP	\$106bn
2016 Growth Proj.	2.5 - 3%

Bulgaria	
Population	7mm
2014 GDP	\$56bn
2016 Growth Proj.	2.5%

Romania	
Population	20mm
2014 GDP	\$200bn
2016 Growth Proj.	3.8%

Turkey	
Population	78mm
2014 GDP	\$806bn
2016 Growth Proj.	3.0%

Challenges Of Investing Across CEE

Key Challenges From Investing Across CEE

- CEE is a fragmented market in terms of the number of countries to cover
- The region is culturally diverse and this needs to be well understood when dealing with management teams and business partners
- With so many countries to cover, it can be difficult to remain objective and ensure your deal selection criteria is being rigorously and consistently maintained
- Companies can be constrained in size by the size of their domestic market
- Limited opportunities to acquire full control of high quality companies of sufficient size
- And now... fallout from Brexit

How Best To Invest Across The Region

1. Have a Focused Strategy

We focus on leveraging consumer driven growth and expanding our companies domestically, regionally and internationally through organic & inorganic growth using TRG's unique footprint

- We approach this strategy through three core sectors:
 - i. **Consumer:** Consumption driven industries continue to evolve driven by themes such as import substitution, increased brand penetration and the ongoing move towards modern retail and distribution formats
 - ii. **Healthcare:** Increasing life expectancy and access to healthcare, yet healthcare spending still well below EU levels
 - iii. **TMT:** Increasing exposure to telecoms, media services and content as well as bundling product offerings, increased outsourcing and development of specialized IT services solutions
- Focus is crucial since we deliver most of our returns from top line growth

2. Focus on Mid-Market Opportunities

- In our opinion mid-market companies are where the most interesting opportunities are across CEE
 - Revenues of EUR c. 50 - 150 million
- Mid-Market opportunities typically involve businesses that feature some of the following:
 - Family-run / founder managed
 - Management teams that need to be upgraded / augmented
 - Internal decision making processes / corporate governance need improvement
 - Financial reporting / budgeting / fiscal discipline needs to be overhauled
- Addressing these issues can often immediately release value for investors

3. Retain Flexibility To Invest In Structured Minority or Control

- In order to maximise the opportunity set in CEE, it is crucial to be able to invest in minority positions alongside entrepreneurs in situations where control is not available
- In this case structuring your investment appropriately is key
- Key considerations include:
 - Minority does not mean passive
 - Ensure you have strong exit rights (Plan A, Plan B & often Plan C) negotiated and agreed upfront
 - Secure extensive corporate governance veto rights to ensure all key decisions require your approval
 - Build in downside protection where possible into the investment structure
 - Most importantly, build a true partnership, which will support your relationship with your partner and ultimately underpin the exit thesis

4. Ensure Rigorous and Objective Deal Selection of Target Companies

The Team seeks companies with some or all of the following characteristics:

1

Established Market Position

- Leadership position in core market(s)
- Differentiated / Defensible product or service offering
- Proven business model with pricing power over consumer
- Strategic value to industry players at exit

2

Sound, Clearly Identifiable Growth Prospects

- Proven track record of consistently delivering historical growth
- Achievable near term growth from logical expansion of core business
- Key identifiable “need” in the market to justify increasing revenues

3

Strong Financial Position

- Stable, predictable cash flows
- Favorable working capital dynamics
- High conversion of EBITDA into free cash flow
- Low leverage

4

Platform for Consolidation

- Scope to build on a solid base business to create a domestic / regional champion through add-on acquisitions
- Scalable business platform

5

Export Focus

- Diversification of revenues across multiple markets
- Leverage growth potential of the EU as the main trading partner for most Emerging European economies
- Ability to open other global markets

6

Strong Management Team

- Experienced management with a proven track record of success and ability to take the company to the next level
- Augment or upgrade management teams from our network if talent is insufficient within the company

5. Take A Diligent And Disciplined Approach To Exits

- Always plan well ahead when preparing for exits
- Ensure companies are thoroughly prepared to ensure exits occur in a timely manner
- Don't get greedy – take the exit window when available

Conclusion

Conclusion

- Right time to think again about investing in CEE
- Market conditions are ripe for private equity given the shortage of capital across the region
- Lots of high quality companies open for investment

Q&A

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INVESTORS IN THE FUND BEAR MANAGEMENT FEES, OTHER EXPENSES AND PERFORMANCE-BASED FEES. IN THE AGGREGATE, THESE FEES AND EXPENSES CAN BE SUBSTANTIAL AND WILL ADVERSELY AFFECT THE RETURN TO INVESTORS IN THE FUND.

FOR A MORE DETAILED DISCUSSION ON THE RISKS INVOLVED IN INVESTING IN THE FUNDS PRESENTED HEREIN, PLEASE READ THEIR RESPECTIVE CONFIDENTIAL MEMORANDUM.

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