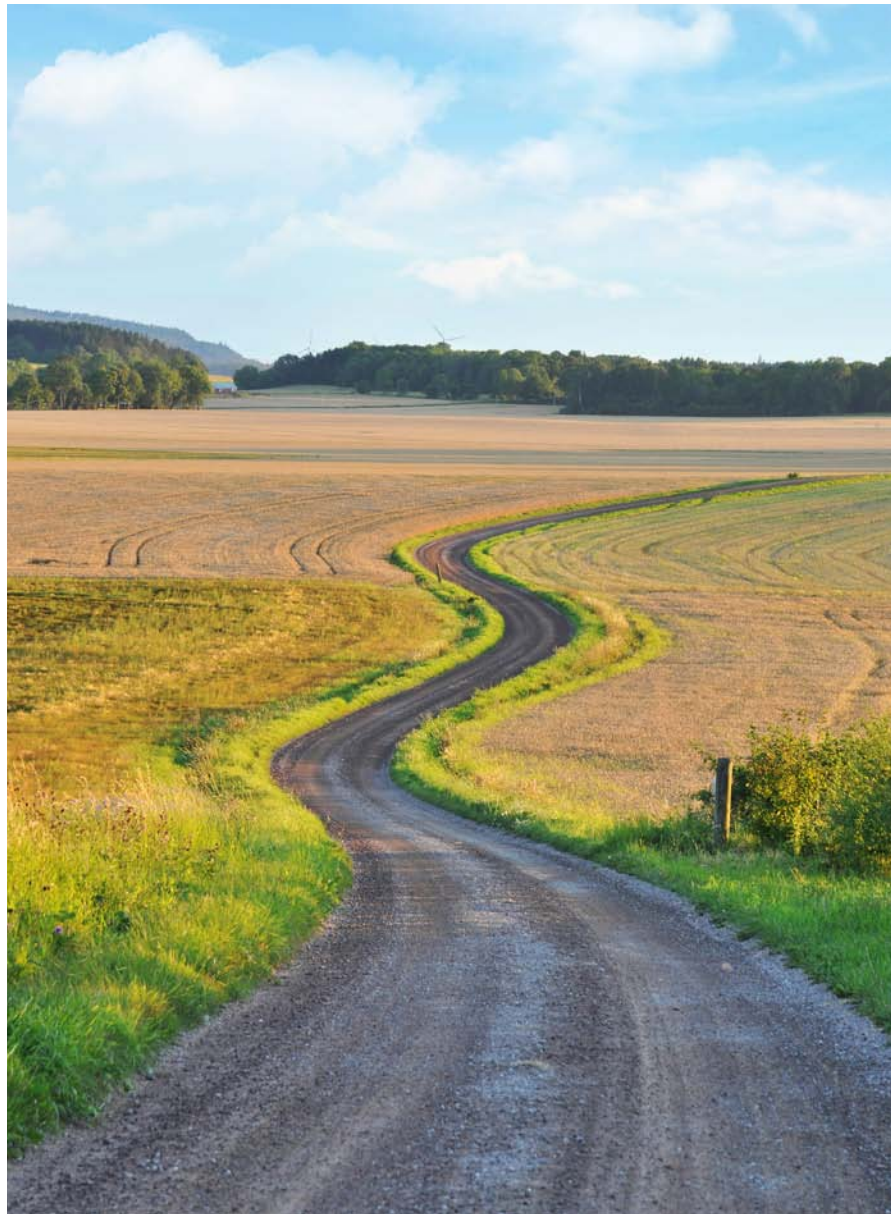


Back on track

Central Europe Private Equity confidence survey



There has been a four-fold increase in the proportion of respondents who anticipate an improvement in economic conditions that's putting us back on track for sustainable growth.

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Introduction

We're delighted to report that our latest survey shows a continuing improvement in sentiment. This marks the first time in four years that we've recorded two consecutive periods of increasing confidence among Central Europe's (CE's) private equity (PE) deal-makers. This uptick in sentiment is due to a number of factors. While economic recovery remains work in progress, right across Europe and not just in the Eurozone, the threat of the total collapse of the single currency has abated. Additionally, a return to growth – even if it is relatively flat – has helped boost confidence in Europe. This is crucial, whether from the perspective of foreign investors looking into the region or from that of European businesses trying to plan for the future.

This growing confidence is reflected in our survey, which shows a four-fold increase in the proportion of respondents who anticipate an improvement in economic conditions that's putting us back on track for sustainable growth. This has also led to enhanced optimism regarding deals, with nearly twice as many respondents expecting an increase in deal numbers as in the last survey.

An increased interest in mid-sized targets reflects improved confidence in the deal environment and business conditions. Investors no longer feel that they have to focus on market leaders to develop an attractive future exit prospect. The sentiment is that superior returns can be achieved with middle-sized companies. Furthermore there is confidence that portfolio business management activities on revenue growth and cost cutting can deliver this.

There are also signs that CE is increasingly perceived as an integral part of Europe, with respondents naming price and terms as the key differentiators in winning a deal. They assigned these factors far more importance than local presence, which was once a key selling point for many PE funds eager to show their ability to understand local nuances.



Another sign of this convergence with the rest of Europe is an emerging trend we can observe in the CE fundraising scene. Anecdotal evidence suggests that CE PE funds are now competing with Western European (WE) and US PE funds for the attention of limited partners (LPs). In other words, the region is no longer deemed an 'emerging market'.

And similar to WE, some relative newcomers are attracting international LPs. In addition to vehicles raised by regional lynchpins Enterprise Investors and 3TS, Abris Capital Partners raised its second fund above target despite a relatively short history in CE. The success of such a varied group of PE Funds highlights LPs' willingness to look beyond the brands and delve into investment theses – much like in developed markets.

While this may make it hard to predict upcoming success rates, it's a refreshing sign that CE has made great strides in its quest towards convergence with WE.

Garret Byrne
Partner, Private Equity Leader
Central Europe

October 2013

Overview

Key findings

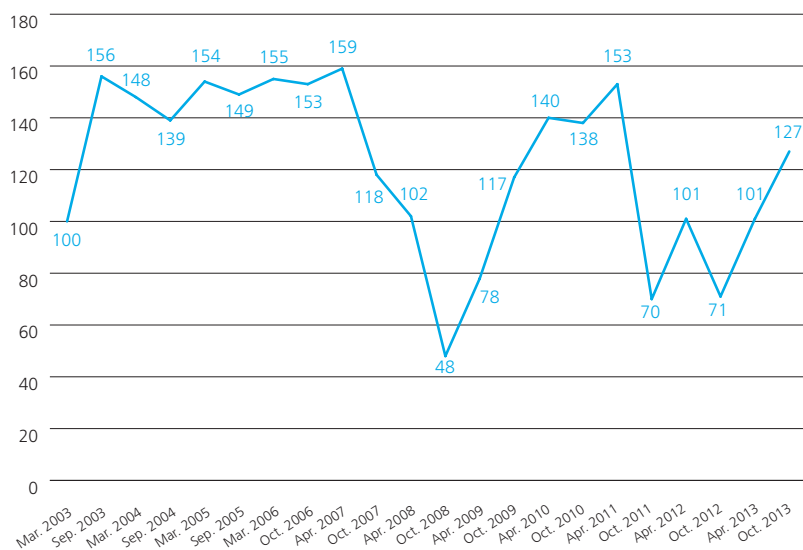
- Sentiment continues to improve markedly this year, with confidence reaching its highest level since 2011. More than two fifths of respondents (43%) expect an improvement in economic conditions, up from 10% during the previous period.
- This may be a reflection of restored confidence in the Eurozone, as well as the gentle recovery in some of the region's economies. For example Poland, Europe's sixth largest, narrowly missed slipping into recession at the beginning of this year and is now forecast to post 1.1% growth this year, rising to 2.4% next year, according to the country's central bank.¹
- The fund closes recorded in 2013² means there are local PE funds with fresh capital to deploy. A third of respondents expect activity to increase over the next six months, nearly twice the proportion expecting an uptick in the previous survey.
- Another encouraging sign is the sharp decline in the number of respondents expecting a reduction in market activity: just 2% expect activity to decrease over the next six months, down markedly from 17% during the last survey.

Central Europe PE Confidence Index

Confidence of deal-doers has rebounded strongly, with a stabilising economic backdrop providing a market more conducive to transactions. Respondents are particularly upbeat about new deal activity, with nearly 60% expecting to focus mostly on new deals in the coming months, up from just a third in the last survey. The increase came as deal-doers shied away from portfolio management, a defensive strategy employed strongly in the immediate wake of the Lehman collapse as well as last year, when fears of a Eurozone breakdown were very real.

There are also signs that CE is more widely accepted as a truly European market, rather than as a riskier alternative. For example, price and terms are considered the most important differentiator among PE firms when winning a deal – much the same as in Western Europe.

Central Europe PE Confidence Index*



*The PE Confidence Index is based upon answers received from PE professionals focused on Central Europe. It is composed from answers to the first seven questions of survey. For each period the average of positive answer ratios over the sum of positive and negative answers is computed. This average is compared to the base period, which in our case is spring 2003.

This stands in contrast to several years ago, when much importance was placed on a local presence and resultant understanding of risk appetite in the region. Tellingly, these two differentiators have fallen considerably in perceived significance.

Fundraising efforts of the last 18 months have been rewarded with a handful of closes this year. Nearly €1bn has been closed on for three PE funds – 3TS Capital Partners (first close on €103 million), Abris Capital Partners (final close on €450 million), Enterprise Investors (final close on €314 million). While this means deal doing can continue for these houses, there remains at least twice as many either raising or preparing to hit the fundraising trail in the coming months, indicating that any uptick in deal activity is likely to be a gentle one.

¹ Polish Central Bank, June 2013

² Abris Capital Partners (included in May 2013 edition of the survey), 3TS Capital Partners, and Enterprise Investors (see Fundraising section on page 13).

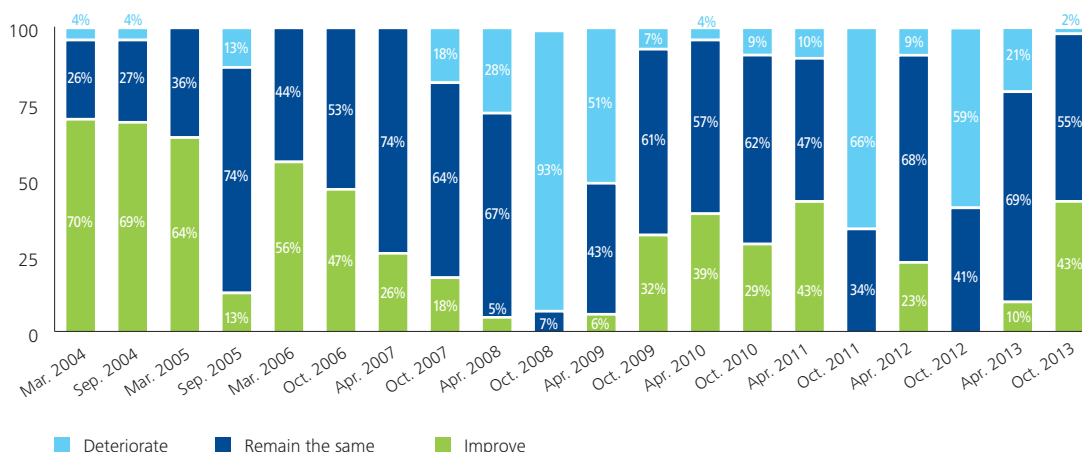


Survey results

Survey results

Economic climate

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

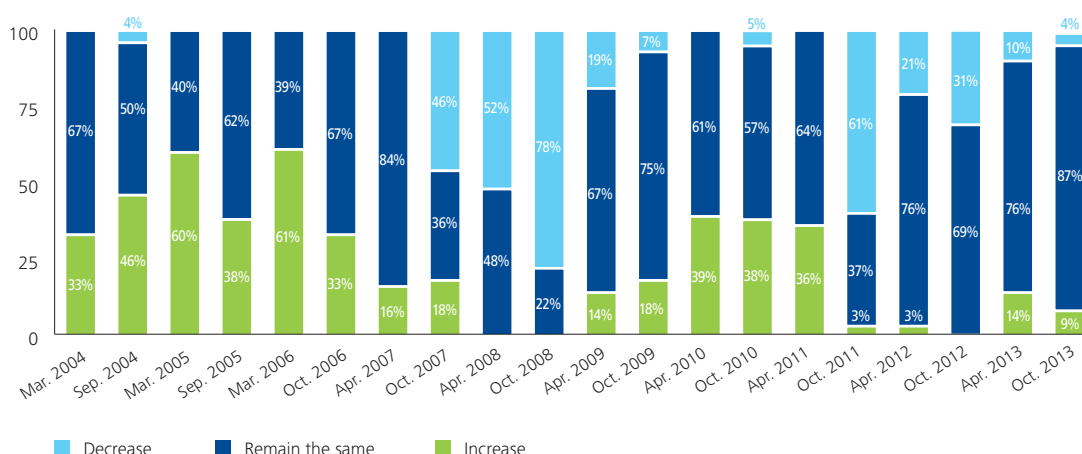


Deal doers are their most positive since October 2006. For the second survey in a row, sentiment among respondents is improving, suggesting a sustained uptick in confidence in the region's economy. More than two fifths of respondents (43%) expect an improvement in economic conditions, up from 10% during the previous period.

Perhaps just as crucially, deal-doers are less downbeat. Pessimism is down for the second survey in a row and at its lowest level for 6.5 years: just 2% of respondents expect a worsening of conditions, down from more than a fifth last survey (21%) and more than a half (59%) a year ago.

Debt availability

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



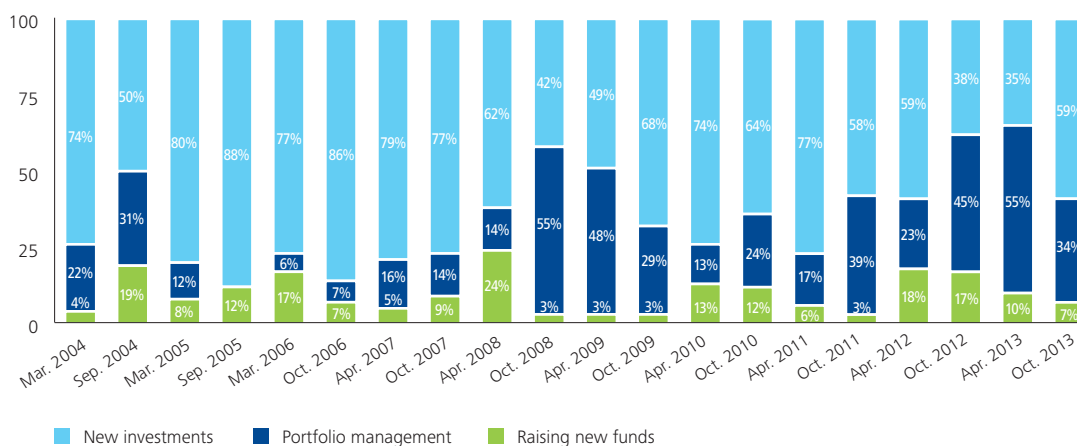
The availability of funding may have stabilised, with the overwhelming majority of respondents (87%) expecting no change in conditions. This is the highest proportion ever recorded in the survey's 10-year history. The stability should prove a welcome relief, with deal-

doers' belief in liquidity reaching its 5.5-year low in October 2008, just weeks after the financial crisis came to a head, and again in October 2011. Pessimism is at its lowest point in two and a half years, with just 4% of respondents expecting reduced debt availability.

* Results are displayed only for the 20 most recent surveys.

Investors' focus

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

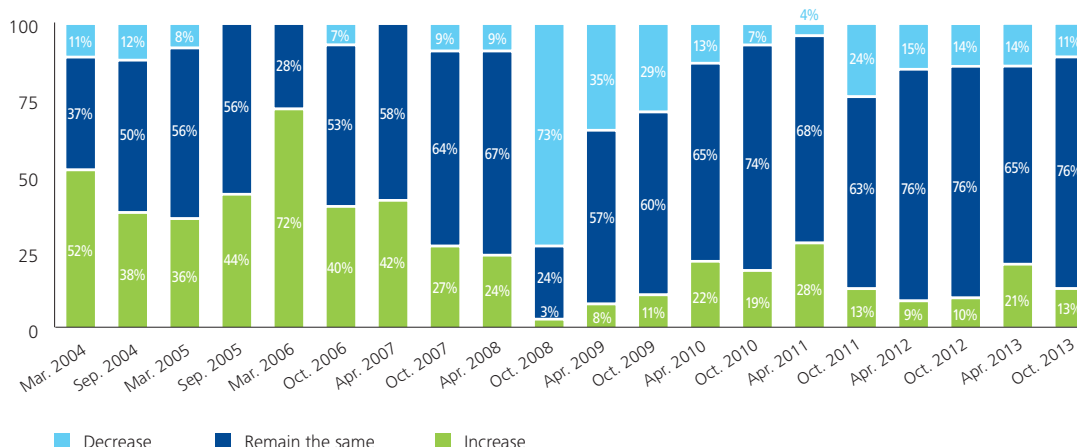


More than half (59%) of respondents plan to focus on new investments during the next six months, an improvement from just over a third (35%) during the last six months, when hunger to invest reached a 10-year low.

The improved confidence in the region's economy may be prompting deal-doers' appetite for new investments: with better visibility on forecasts, PE funds are increasingly confident to put money to work.

Size of transactions

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



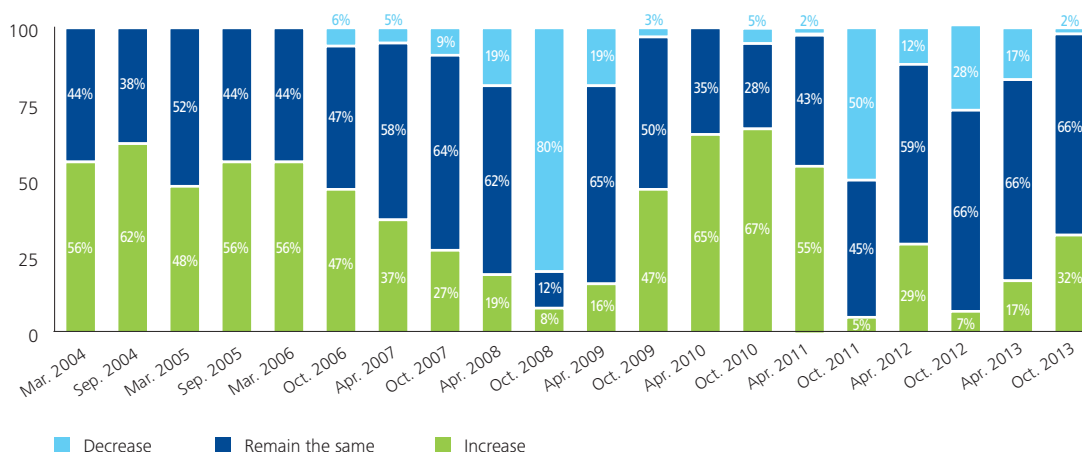
More than three quarters of respondents (76%) expect average deal sizes to remain unchanged. Deal-doers' sentiment around average deal sizes has remained stable for nearly five years.

the market is mostly driven by local PE funds undertaking mid-market buyouts and growth capital deals. The largest deal of the last six months was Penta Investments' €103m takeover (with listed Polish business Neuca) of ACP Pharma from Mediq.

This is unsurprising for the CE market: while a handful of large deals are signed by international PE funds,

Market activity

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



There has been a marked uptick in optimism as regards market activity, with a third of respondents (32%) expecting activity to increase over the coming six months, up from 17% during the last period.

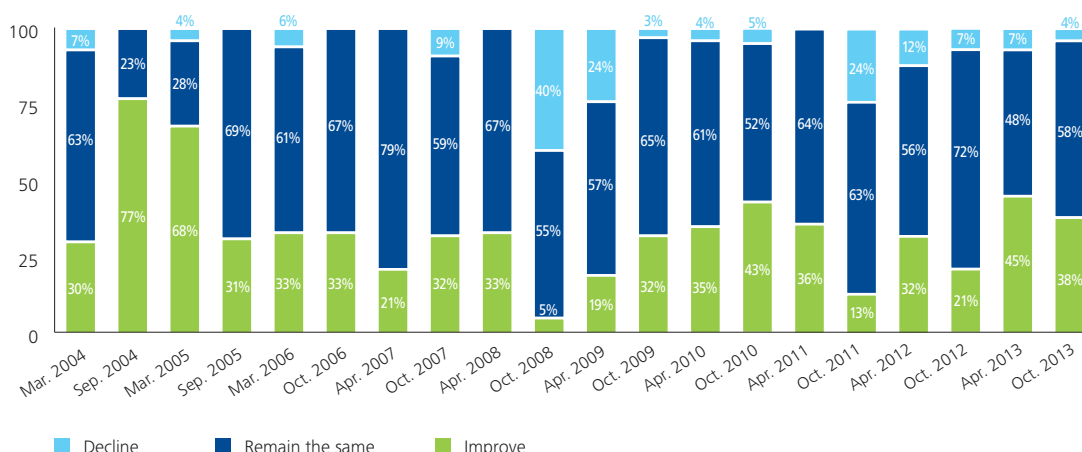
Equally encouraging is the sharp decrease of respondents expecting a reduction in market activity: just 2% expect activity to go down over the next six

months, down markedly from 17% during the last survey.

The bulk of respondents (66%) expect no change in market activity, a figure which has been stable for the last 18 months, suggesting the levels may have stabilised.

Investment return

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

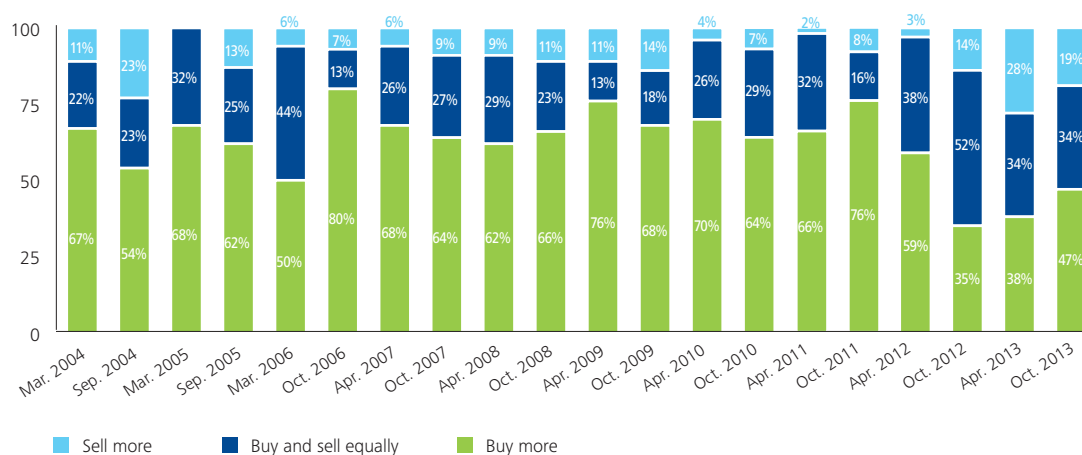


Nearly two thirds (59%) of deal-doers expect no change in the efficiency of their investments over the next six months. This is up from less than half (48%) of respondents in the previous survey.

Less upbeat is a decrease in optimism: just 38% of respondents expect efficiency to improve, down from the previous survey, when nearly half (45%) were optimistic – the highest level since the heady days of early 2005.

Investors' activities

For this period, I expect to:

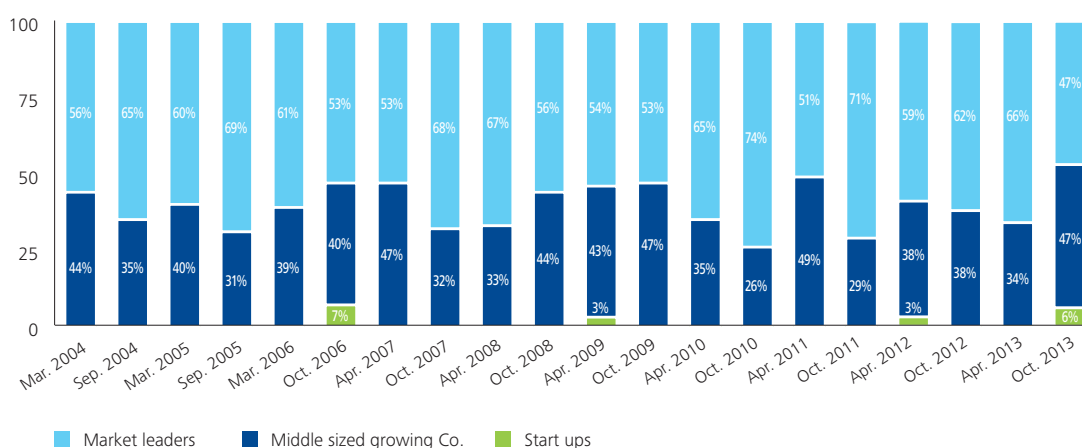


Deal-doers are focusing once again on putting money to work, with 47% of respondents looking to buy more over the coming half year, up from 38% during the last survey. The uptick in appetite for buying assets has been at the expense of an eye on exits, with under a fifth (19%) of respondents expecting to sell more in the next six months. This may be because a handful of PE funds that had been on the fundraising trail have held closes

this year, namely Abris Capital, Enterprise Investors and 3TS Capital Partners. Of course PE funds always look to generate distributions for LPs, however the gentle uptick in people's expectations to buy more could reflect freshly filled coffers for a handful of PE funds. With more PE funds on (or about to embark on) the fundraising train, we may notice this proportion to increase as various of them reach closes.

Competition for new investments

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

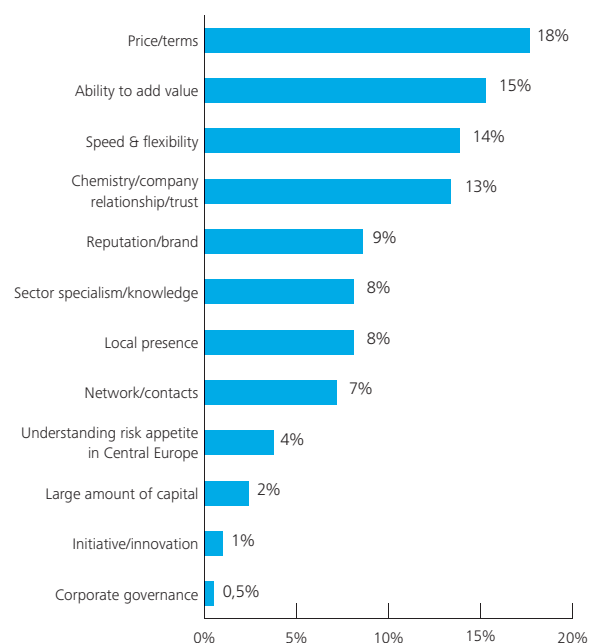


A marked shift in sentiment sees market leaders slip from the most in-demand – the first time in the survey's 10.5-year history. An increased interest in mid-sized businesses has been the main detractor, with an equal number of respondents expecting this segment to be the most competitive.

Start-ups are again blipping on the radars of deal-doers. With just 6% of respondents suggesting this segment will be the most competitive, it is fair to assume the start-up scene continues to develop. 3TS Capital Partner's latest fund, which hit a €103m first close last month, is targeting growth capital opportunities in the technology sector.

Guest questions

The most important competitive differentiator's among PE firms in CE when it comes to winning deals:

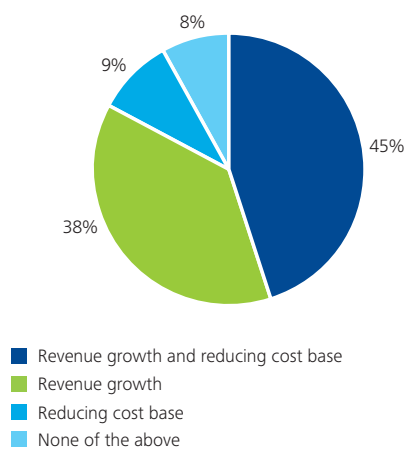


Note: Respondents could each provide an unlimited number of differentiators - the results are displayed as a percentage of all responses received.

Price and terms continue to offer PE funds an advantage over competitors when it comes to winning deals, according to respondents. The next most important differentiator among PE firms is believed to be their ability to add value post-deal.

A local presence is deemed important by just 8% of respondents, suggesting that CE's convergence with Western Europe has come sufficiently far to allow PE funds to compete regardless of their base. To back this point up further, just 4% of respondents feel that understanding local risk appetite was crucial to winning a deal.

Over the next 6 months I expect our portfolio business to focus primarily on:



Nearly half of surveyed deal-doers expect their investee companies to focus on revenue growth as well as cost-base reduction over the next six months. 38% of respondents expect their investments to focus on growing their revenues, with just 9% encouraging cost cutting.

Investments (May 2013 - October 2013)

PE House	Country	Company	Period	Est. Value EUR m	Stake	Description
Mid Europa Partners	Poland	Kolej Gondolowa Jaworzyna Krynica S.A.	September 2013	11.84	75%	Mid Europa-backed Polskie Koleja Górskie, a Polish cable car business, acquired a 75% stake in Kolej Gondolowa Jaworzyna Krynica, also a cable car business, from bank PKO BP and insurance and financial services company Powszechny Zakład Ubezpieczeń for a consideration of EUR 11.84m (PLN 49.7m).
AXA Private Equity, Resource Partners	Latvia	SIA IZZI	September 2013	n/a	n/a	Baltcom TV SIA, a Latvian cable company owned by AXA Private equity, Resource Partners, Rpax One, Mackonar Impex and State Radio and Television Centre, has acquired SIA IZZI, a Latvian telco company, from Contaq Latvia Cable Holding S.a.r.l., the Luxembourg based investment holding company and a portfolio of Argus Capital Group and a subsidiary of Syntaxis Capital, for an undisclosed consideration
Axxess Capital	Romania	Deutek S.A.	August 2013	n/a	n/a	Emerging Europe Accession Fund, the Romania based fund of Axxess Capital, acquired Deutek S.A., the Romania based company engaged in manufacturing and marketing decorative dyes and paints, from Advent International Corporation for an undisclosed consideration.
Delta Partners	Bulgaria	Cash Credit	August 2013 - pending	19	n/a	Emerging Markets TMT Growth Fund II, the UAE based fund of Delta Partners, acquired an undisclosed stake in Cash Credit, the Bulgaria based company engaged in providing micro financial services to mobile subscribers, for a consideration of EUR 19m.
Penta Investments Limited	Poland	ACP Pharma S.A.	August 2013 - pending	103	n/a	Penta Investments Limited and Neuca S.A., the listed Poland based logistics service provider, distributor and retailer of pharmaceutical products, agreed to acquire ACP Pharma S.A., the Poland based company engaged in wholesale and distribution of pharmaceutical products, from Mediq NV, the Netherlands based international retail and distribution company for pharmaceuticals and medical supplies, for a consideration of EUR 102.66m (PLN 432m).
Penta Investments Limited	Poland	EMC Instytut Medyczny S.A.	July 2013	21	53.81%	According to data provided by DI Investors S.A. and brokerage house of Alior Bank S.A. - in the public tender offer for EMC's shares, announced on 28 May 2013 by the subsidiaries of Penta Investments (CareUp BV and Soporito Invest BV) - subscriptions were made for 4,480,731 EMC's shares (53.81% of the share capital), corresponding to 52.74% of the total number of votes at the General Meeting of the company. After completion of the tender offer for EMC's shares – Penta Investments controls 5,696,510 shares of the company, representing 68.41% of EMC's share capital, corresponding to 73.23% of the total number of votes at the General Meeting of the company.
BC Partners	Estonia	MediCap Holding A.S.	July 2013	n/a	n/a	Synlab Services GmbH, a Germany based provider of laboratory services and portfolio of BC Partners, acquired MediCap Holding A.S., an Estonia based provider of laboratory services, from BaltCap for an undisclosed consideration.
Mezzanine Management	Czech Republic	Invia.cz	June 2013	7.5	minority	Accession Mezzanine Capital III, a fund of Mezzanine Management, acquired a minority stake in Invia cz., the Czech Republic based travel business, for a consideration of 7.5m EUR.

PE House	Country	Company	Period	Est. Value EUR m	Stake	Description
BaltCap	Latvia	PostService Group	June 2013	1.5	n/a	BaltCap agreed to an EUR 1.5m investment in PostService Group, the leading Latvian private postal operator and developer of automated last mile delivery solutions.
Tar Heel Capital, LLC	Poland	Rockfin Group Sp. z o.o.	June 2013	n/a	60%	Tar Heel Capital II, the Poland based fund of Tar Heel Capital, LLC acquired 60% stake in Rockfin Sp. z o.o., the Poland based supplier of hydraulic and pressure systems, for undisclosed consideration.
Slavia Capital Group, a.s.	Slovakia	Tatralift, a.s.	June 2013	n/a	63.2%	Slavia Capital Group, a.s. acquired 63.2% stake in Tatralift, a.s., the Slovakia based producer of mountain passengers transportation mechanisms for an undisclosed consideration.
Practica Seed Capital KÜB	Lithuania	AdDuplex	June 2013	n/a	n/a	Practica Seed Capital KÜB invested in AdDuplex – the leading cross-promotion network for Windows Phone and Windows Store apps. The network specifically targeted Windows 8 and Windows Phone apps and games, empowering developers to promote apps for free by helping each other.
Mid Europa Partners LLP	Poland	Polskie Koleje Linowe S.A.	May 2013 - pending	52	n/a	Polskie Koleje Gorskie S.A., the Poland based company, and a portfolio company of Mid Europa Partners LLP agreed to acquire Polskie Koleje Linowe S.A., the Poland based company engaged in cableway transportation, from Polskie Koleje Panstwowe S.A., for EUR 52m (PLN 215m).
Zabolis Partners	Lithuania	JSC Snoro Lizingas	May 2013 - pending	21	n/a	AS LHV Pank, the Estonia based provider of banking, financial advisory and securities brokerage services and Razfin UAB, the Lithuania based investment company and a portfolio of Zabolis Partners agreed to acquire JSC Snoro Lizingas, the Lithuania based provider of hire purchase and factoring services, for a consideration of EUR 21.44m (LTL 74m).
The Gores Group, LLC	Poland	ApoTessile Sp. z o.o.	May 2013	n/a	n/a	Sage Automotive Interiors, Inc., the US based designer and manufacturer of automotive headliners and body cloth and a portfolio company of The Gores Group, LLC, acquired the Automotive fabric manufacturing assets of ApoTessile Sp. z o.o., the Poland based fabric manufacturer, for an undisclosed consideration.
Doughty Hanson & Co	Poland	Multikino S.A.	May 2013 - pending	n/a	n/a	Vue Entertainment Ltd., the UK based developer and operator of multiplex cinemas, and a portfolio of Doughty Hanson & Co, agreed to acquire Multikino S.A., the Poland based multiplex cinema operator, from ITI Group, the Poland based media and entertainment group and AREA Property Partners, the US based real estate fund management company, for an undisclosed consideration.

Selected Significant Exits (May 2013 - October 2013)

Company	Country	Seller	Buyer	Period	Value EUR m	Stake	Description
Deutek S.A.	Romania	Advent International Corporation	Axxess Capital	August 2013	n/a	n/a	Advent International Corporation sold Deutek S.A., the Romania based company engaged in manufacturing and marketing decorative dyes and paints to Emerging Europe Accession Fund, the Romania based fund of Axxess Capital for an undisclosed consideration.
Ballroom International	Central and Eastern Europe and Turkey	Enterprise Investors	Stroer Media	August 2013	n/a	34.65%	Enterprise Venture Fund I, a venture capital fund managed by Enterprise Investors, sold its 34.65% stake in Ballroom International, the independent internet ad sales network, active in Central and Eastern Europe and Turkey, to Stroer Media, a German outdoor advertising company, for an undisclosed consideration.
NAY a.s.	Slovakia	Enterprise Investors	Peter Zalesak and Jan Tomas (Private Investors)	August 2013	n/a	48%	Polish Enterprise Fund V LP, the Poland based fund managed by Enterprise Investors, sold its 48% stake in NAY a.s., the Slovakia based retailer of electrical products, to Jan Tomas and Peter Zalesak, the Slovakia based private individuals, for an undisclosed consideration.
Bauhof Group A.S.	Estonia	Askembla Asset Management	MyInvest Estonia	July 2013	n/a	n/a	Askembla Growth Fund Kommanditbolag, the Sweden based fund of Askembla Asset Management AB, sold its Estonia based portfolio businesses Bauhof Group A.S. and MyFitness A.S., a home improvement retailer and fitness service provider respectively, to MyInvest Estonia OU, an Estonia based holding company, for an undisclosed consideration.
MediCap Holding A.S.	Estonia	BaltCap	BC Partners	July 2013	n/a	n/a	BaltCap sold MediCap Holding A.S., an Estonia based provider of laboratory services, to Synlab Services GmbH, a Germany based provider of laboratory services and portfolio of BC Partners, for an undisclosed consideration.
Pietro Filipi	Czech Republic	Genesis Capital	Petr Hendrych (founder of the company)	May 2013	n/a	majority	Genesis Capital withdrew from its investment in Pietro Filipi, the Czech Republic based retail fashion company. Petr Hendrych, the founder of the company, re-acquired a majority stake in the company.

Fund raising (May 2013 - October 2013)

Company	Fund	Value (EUR m)	Status	Time	Description
3TS Capital Partners	TCEE Fund III	103	first close	September 2013	3TS Capital Partners has held a first close of EUR 103m for its third fund to continue focusing on growth capital investments primarily in Technology & Internet, Media & Communications and Technology-Enabled Services sectors.
Enterprise Investors	PEF VII	314	final closing	May 2013	Enterprise Investors announced the final closing of its latest fund, Polish Enterprise Fund VII. The total size of the fund is EUR 314m. The fund will continue to finance mid-market buyouts and growth companies in selected industry sectors, mainly in Poland.

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CE Top 500, 2013

www.deloitte.com/cetop500

The 2013 edition of the Deloitte CE Top 500 report ranks the largest companies from the 18 countries that comprise Central Europe. In addition, it includes the opinions of some of the region's most prominent business leaders, with a focus on the priorities that do most to deliver stability and growth.



Global Economic Outlook 3rd quarter 2013

www.dupress.com/collection/economic-outlooks

This third quarter edition of the Global Economic Outlook offers timely insights from Deloitte Research economists about China, Japan, the United States, Eurozone, The United Kingdom, India, Russia, and Brazil. In addition, this issue features a special section called "Consumers and the recession: Trends in Eurozone consumer spending."



Deloitte Review – Issue 13

www.dupress.com/collection/deloitte-review

Deloitte Review is a semi-annual Deloitte University Press publication showcasing a selection of articles including original research and viewpoints. This issue of Deloitte Review, focuses on the definition of innovation and the strategic implications of getting that definition right (or wrong), and also explore opportunities for innovation in talent acquisition, data marketplaces, and technology.

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