

Have we reached
the bottom?
Central European
Private Equity
confidence survey



Introduction



“Have we reached the bottom?” that is the main issue being discussed amongst finance professionals in Central Europe. The Private Equity confidence index has decreased significantly since reaching a peak in April 2007; however, the results of our most recent survey highlight an increase in confidence going into the second half of 2009.

Governments and central banks have taken unprecedented actions to stimulate recovery in the global economy and whilst it may be too early to talk about a change of fundamentals, the recent rallies in stock markets around the world would suggest that these efforts are restoring confidence.

Clearly the increase in optimism reflected in our survey is coupled to those being felt in Western Europe and the United States but Central Europe does still provide compelling arguments for the increased confidence experienced within the Private Equity community. Prime assets including secondary wave privatisations are still coming to market, valuations remain attractive compared to Western European counterparts and many believe that the region will fare better than others affected by the global economic downturn.

Ultimately only time will tell and with confidence still remaining subdued it may be too early to call the revival of the M&A activity but based on the weight of opinion it appears that we may have reached a bottom and the worst may now be behind us.

A handwritten signature in blue ink that reads "Garret Byrne". The signature is written in a cursive, flowing style.

Garret Byrne
Partner
M&A Transaction Services Leader
Central Europe

June 2009

Overview

Key findings

- The consensus view as at April 2009 shows much higher levels of optimism compared to October 2008, with the index gaining 30 points.
- Concern about the economic environment still exists with 51% still expecting further economic deterioration.
- The split of time between portfolio management and new investment activities is expected to be largely equal going into the next period.
- The return on investments is more bullish with the proportion expecting improvement increasing from a record low of 5% in October 2008 to 19% in April 2009.

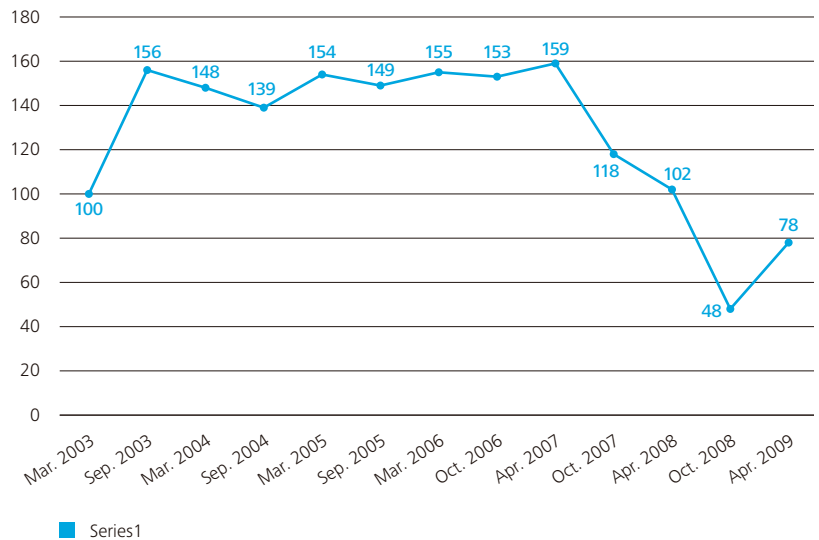
Central European Private Equity Index

The end of 2008 set a low point for private equity sentiment in Central Europe with the results of the latest Central Europe PE index showing a recovery of 30 points from this low. This revival in confidence mirrors the gains seen in stock markets around the globe and would suggest that the efforts of governments and world banks are working.

The M&A landscape in CE during the last half year showed sluggish activity. Furthermore anecdotal evidence suggests the anticipated downward adjustment of pricing multiples has not been realised leading to a price expectation gap between sellers and buyers.

The thawing of the CE M&A market will take some time. In the short term there has been a slight shift of focus from portfolio management to the search and analysis

Central Europe PE Confidence Index

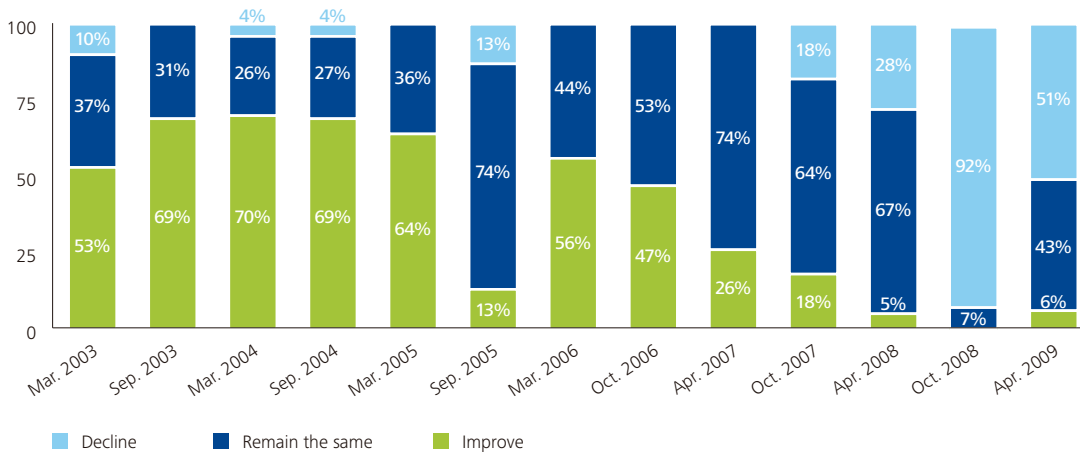


of new investments; the expected division of time between these two activities being approximately equal. Time spent focussing on new investments in the next 6 months will be principally for new "gems" such as those opportunities arising out of distressed sales.

Availability of debt is expected to stabilise albeit at depressed levels and is likely to remain at these levels for the next few months to come. Future buyout deals will be more unconventional with potentially higher levels of equity required. Given the limited expected deal flow GPs have a strong incentive to manage and monitor operational improvements in existing portfolio businesses. The daily lives of PE teams will become more hands-on management driven in the year to come. The last 6 months has seen a low level of new fund raising for Central Europe. We expect that the upcoming years will be marked as "survival of the fittest".

Survey results

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

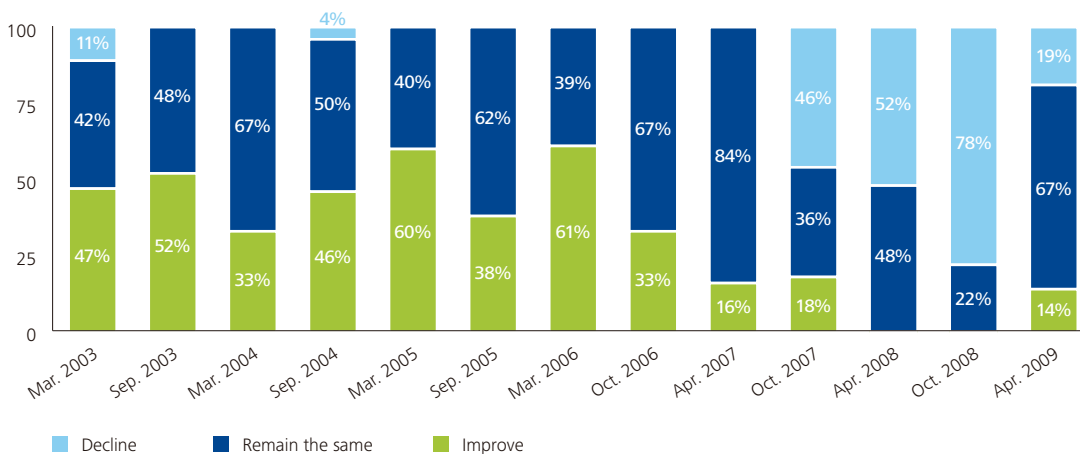


Economic Climate

Concerns about the future economic climate still prevail amongst private equity players.

Over half of respondents expect the economy to contract further and 43% expect it to stabilize at current levels, which in itself is a notable improvement from overwhelming pessimism expressed at the end of 2008.

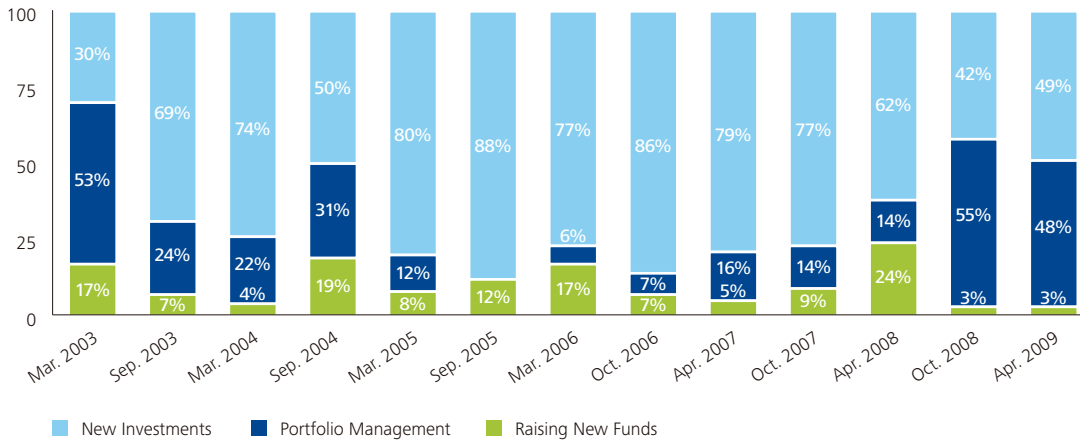
For this period, I expect the availability of debt finance to:



Debt Availability

The drought in the debt markets is expected to continue in the coming period with only 14% of respondents expecting an improvement. However, the stabilisation of the debt market may be interpreted as a prelude to the start of the healing process that is awaited by the majority of market players.

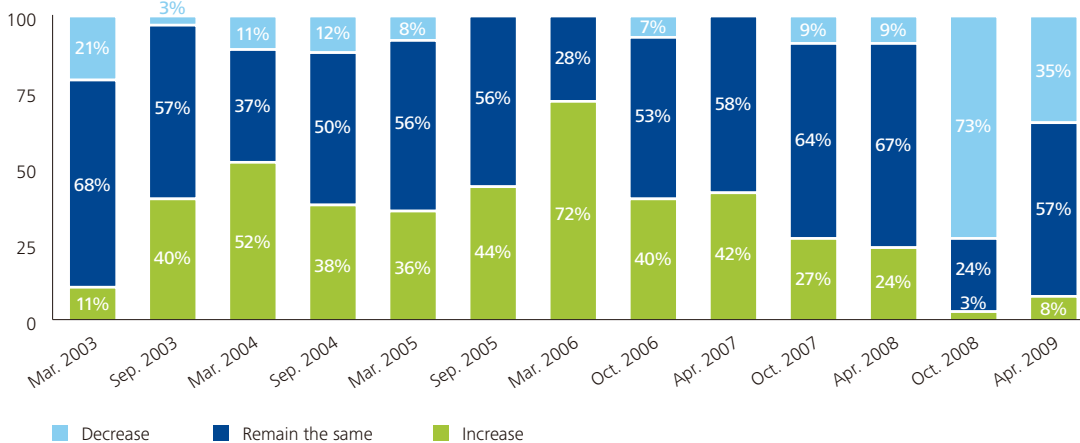
For this period, I expect to spend the majority of my time focusing on:



Investors' Focus

The search for new investments is expected to be level with in house portfolio management during the period to come, with almost no plans for new fund raising.

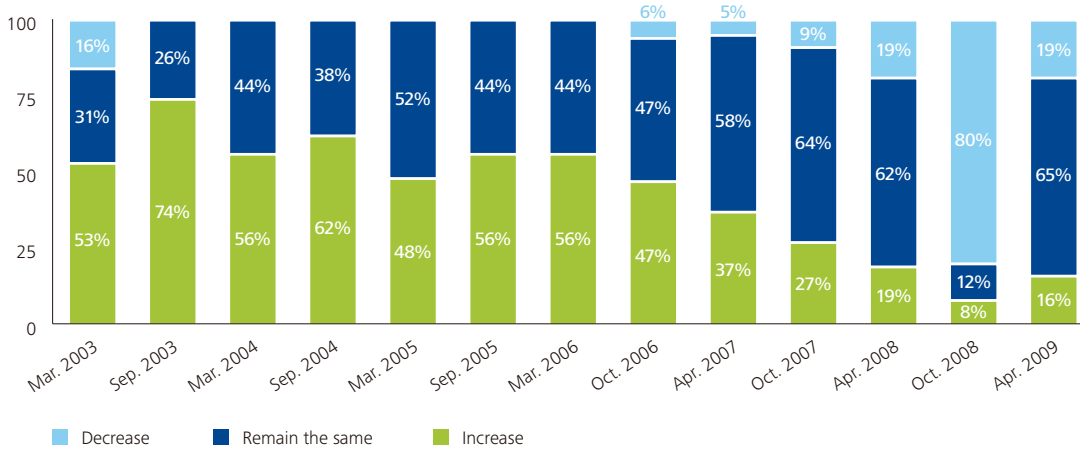
For this period, I expect the average size of transactions to:



Size of Transactions

Last year's expectations regarding the shift of market activity to small and mid-market deals (mainly driven by debt markets) remains prevalent with the majority of respondents expecting deal sizes to remain on a similar level or contract further in the near future.

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

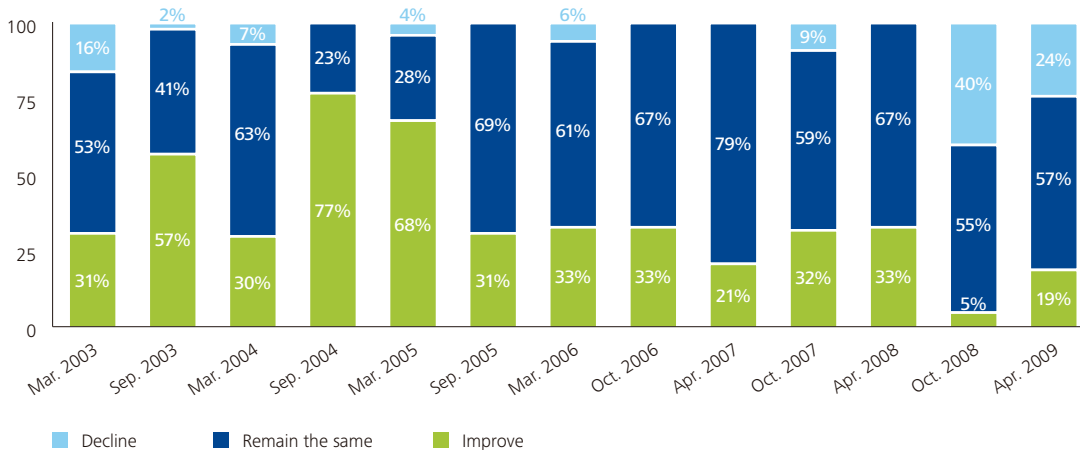


Market Activity

The CE M&A market is still in a deep freeze with only a small number of market players expecting to see an increase in deal flow; the majority expect market activity to remain unchanged during the summer.

The onward adjustment to purchase multiples, which were anticipated at the end of 2008 have not yet reached the levels acceptable to buyers.

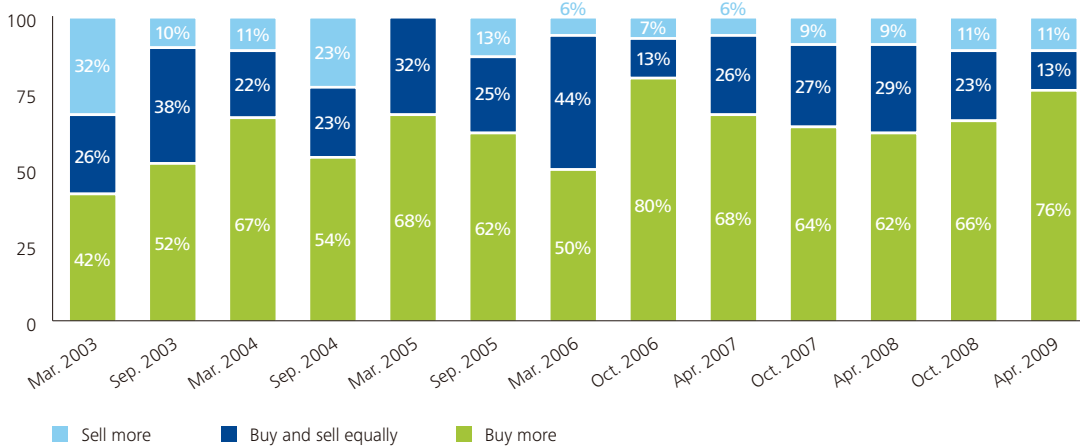
For this period, I expect efficiency of my financial investments to:



Investment Return

Signs of cautious optimism are felt amongst the market players. There is a notable swing from the proportion that expected a decline in return to a more bullish view with returns improving. However, the majority of respondents still expect that returns will remain stable which is largely unchanged from October 2008.

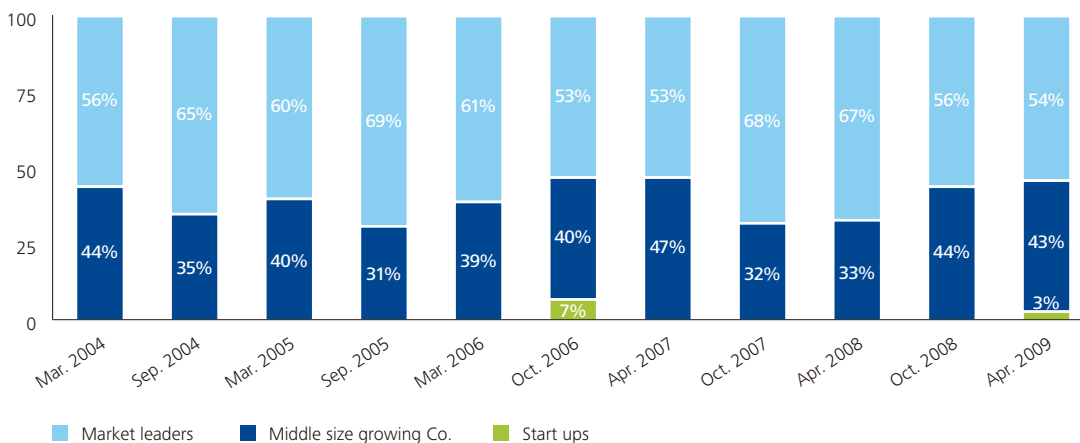
For this period, I expect to:



Investors' Activities

Partly contradictory to the debt availability and market activity indicators three quarters of market players expect to buy more in the coming period. The search for the low priced "gems" in distress will be the key agenda item for most PE players during the remainder of 2009.

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



New Investments Competition

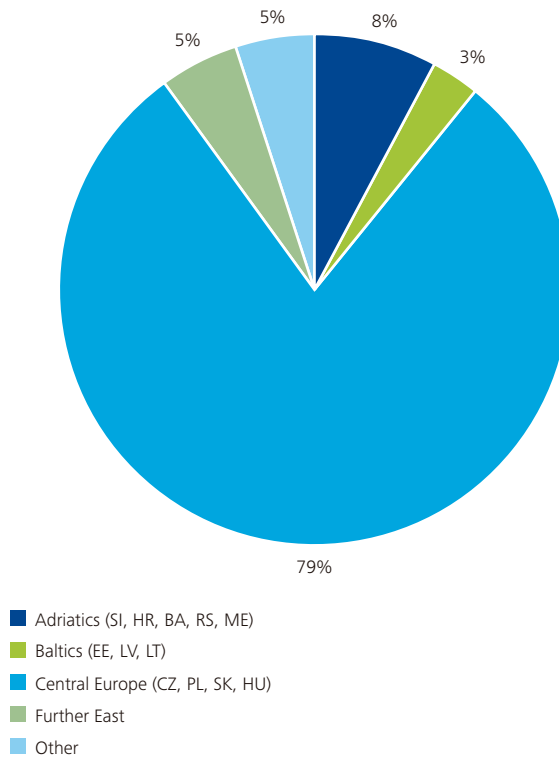
The most stable trend, since the start of the survey in 2004, is the expectation of competition for market leaders and high potential mid-market players.

Geographical Focus

The centre of CE (Czech Republic, Slovakia, Poland & Hungary) will continue to be in the spotlight for the majority PE players during the second half of 2009 and with limited appetite for investments in Adria, Baltics or eastern neighbours.

This trend could indicate that the M&A environment in this central region is more developed but also that those economies in the other geographies will fare worse as a result of the economic downturn.

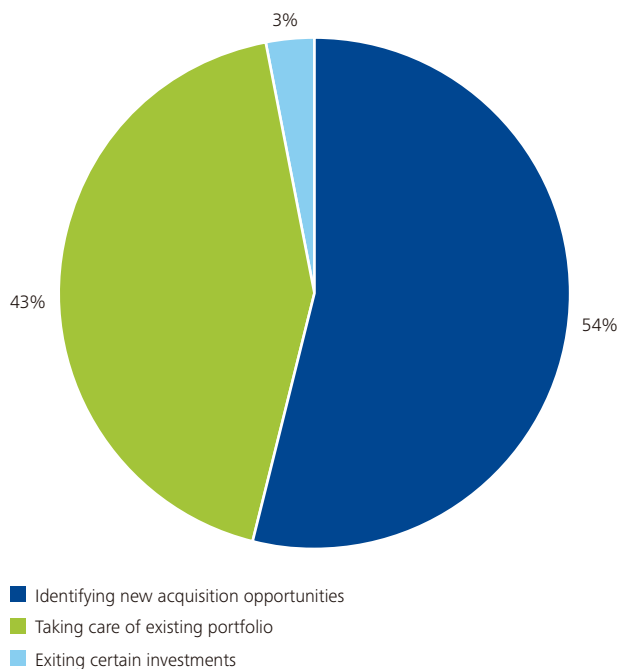
For this period I expect to focus on investment opportunities in:



Time & Effort Allocation

The efforts of CE PE players over the next 6 months will be towards portfolio development; whether through new investments or the management of existing holdings as opposed to being focussed on the exiting of current investments.

During the next 6 months I expect to spend most of time and efforts on:



Fund raising

Company	Fund	Value (€ m)	Status	Time	Description
East Capital	East Capital Special Opportunities Fund	73.5	to launch	March 2009	East Capital, an Eastern Europe-focused asset manager, will launch a new €73.5m fund that will target undervalued assets in special situations. The new East Capital Special Opportunities Fund will seek investment opportunities that can be acquired at low valuations. The fund is mandated to invest in Russia and the rest of Eastern Europe and the board of directors of East Capital Explorer will make a cornerstone investment of €35m on the fund's launch in the second quarter of 2009.
Oaktree Capital Management	OCM European Principal Opportunities Fund II	1.8bn	closed	December 2008	US firm Oaktree Capital Management has closed its latest fund, OCM European Principal Opportunities Fund II, raising approximately €1.8bn according to various reports.
Horizon Capital	Emerging Europe Growth Fund II	280	closed	November 2008	Horizon Capital has closed its latest fund, Emerging Europe Growth Fund II, with total capital commitments of €280m, well above the fund's €215m target.

Selected significant exits

Company	Country	Seller	Buyer	Date	Value (€ m)	Stake	Description
Marila Balirny, a.s.	Czech Republic	Arca Capital Bohemia, a.s.	Mokate S.A.	March 2009	n/a	n/a	Mokate S.A., the Poland based producer of coffee products has acquired Marila Balirny, a.s., the Czech Republic based producer of coffee, sweets and mineral water products, from Arca Capital Bohemia, a.s., for an undisclosed consideration.
AITECS Medical UAB	Lithuania	Hanseatic Capital	Moog Inc.	December 2008	16.0	n/a	Moog Inc., the listed US based company that designs, manufactures and integrates precision control components and systems has acquired AITECS Medical UAB, the Lithuanian based manufacturer of syringe style infusion therapy pumps from Hanseatic Capital, the Estonia based provider of mezzanine capital to growth-oriented businesses and private equity firm, for a cash consideration of €16m.

Investments

PE House	Country	Company	Period	Est. Value m Euro	Stake	Description
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, approx. for €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.
Arx Equity Partners	Czech Republic	Lexum Group	April 2009	20.0	100%	ARX Equity Partners, a CEE-focused private equity firm has completed an LBO of the Lexum Group of companies (the largest chain of eye surgery clinics in the Czech Republic), taking a 100% stake.
Arx Equity Partners	Poland	Kakadu Sp. z o.o.	March 2009	9.5	n/a	DBG Eastern Europe II LP and Arx CEE III LP, the Hungary based private equity funds of Arx Equity Partners, the Hungary based private equity firm has agreed to acquire a controlling interest in Kakadu Sp. z o.o., the Polish owner and operator pet products food retail chain, for consideration of approx. €9.5m.
GED	Romania	Diamedix	March 2009	12.0	80%	GED acquired an 80% in Romanian medical distribution company Diamedix for €12m via its GED Eastern Fund II. The transaction is a mix of a shares purchase and a capital injection, which will finance further growth.
3TS Capital Partners	Bulgaria	Investor.bg	February 2009	n/a	16.77%	3TS Capital Partners has invested in the Bulgarian listed online media company Investor.bg, taking a 16.77%. The purchase was made via the firm's 3TS Cisco Growth Fund, which was established in November 2007 with Cisco Systems Inc. as anchor investor.
Enterprise Investors	Poland	Bio-Profil Sp. z o.o.	February 2009	3.2	36%	Enterprise Investors Venture Fund bought out 36% of Bio-Profil Sp. z o.o., a Polish sales and marketing company for €3.2m.

PE House	Country	Company	Period	Est. Value m Euro	Stake	Description
Penta Investments Limited	Slovakia	Noves okna, s.r.o.	February 2009 pending	n/a	n/a	Penta Investments Limited agreed to acquire Noves okna, s.r.o., the Slovakia based manufacturer of plastic and aluminum windows, doors, window blinds, insect screens and parapets, for an undisclosed consideration. In the next 3 years Penta will invest more than €3m in order to increase production capacities and to employ more employees. The deal is subject to antimonopoly office approval.
Royalton Partners	Czech Republic	Activ a.s. Praha	January 2009	n/a	n/a	The management of Activ a.s. Praha, the Czech operator of parking zones and parking lots has acquired the company in a management buyout backed by Royalton Capital Investors II, the Switzerland based private equity fund owned by Royalton Partners, the Switzerland based private equity firm, for an undisclosed consideration.
Balkan Accession Fund	Romania	Frigotehnica S.A.	December 2008	25.0	99.8%	Balkan Accession Fund agreed to acquire a 99.8% stake in Frigotehnica S.A., the Romania based manufacturer of refrigeration equipment, through Frigoholding, a special purpose acquisition vehicle, for a total consideration of €25m.
Bancroft Private Equity LLP	Slovakia	Frost, s.r.o.	December 2008	n/a	94.36%	Bancroft II LP, the UK based fund of Bancroft Private Equity LLP has acquired 94.36% stake in Frost, s.r.o., for an undisclosed consideration.
Benson Oak Capital	Czech Republic	BTV plast, s.r.o.	December 2008	n/a	n/a	Benson Oak Capital acquired BTV plast, s.r.o., the Czech Republic based producer of plastic parts for automobiles, for an undisclosed consideration.
Enterprise Investors	Poland	Dystrybucja Polska, Sp. z o.o.	December 2008	1.5	30%	Enterprise Investors Venture Fund acquired 30% of Dystrybucja Polska, Sp. z o.o. (Polish Distribution), for approx. €1.5m.
Mid Europa Partners	Czech Republic	Falcon Group	December 2008	n/a	n/a	Mid Europa Partners acquired an additional stake in Falcon Group from their consortium partner Lehman Brothers, taking their ownership in the Group to 74.6%. Falcon Group owns 100% of broadcaster and alternative telco, Ceske Radiokomunikace and 39.2% of T-Mobile Czech Republic, which it acquired in November 2006.

Contacts

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