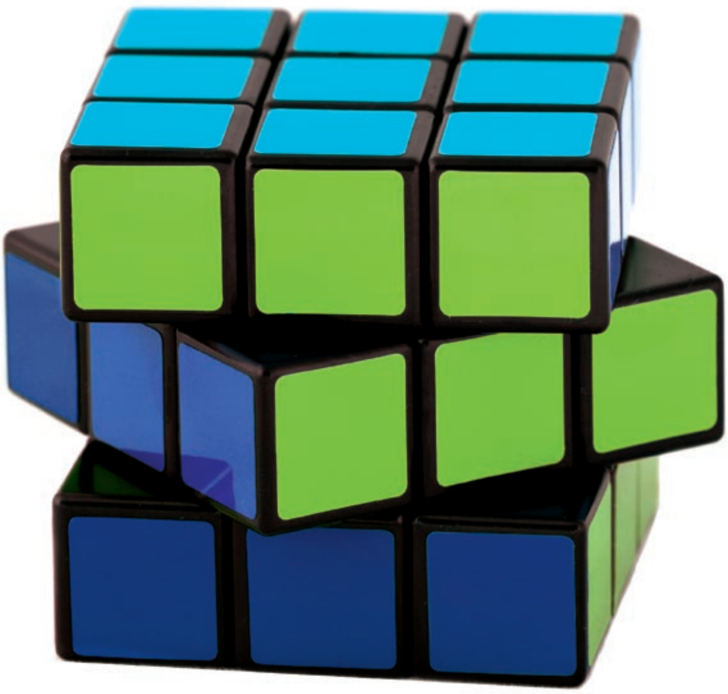
Confidence grows – but deals are challenging to close

Central Europe Private Equity confidence survey



Private Equity, May 2010

2010 is looking much more positive than 2009 - the recovery in stock markets and improved availability of debt has improved sentiment and the likelihood of deals getting done.

Introduction

Welcome to the 15th edition of the Deloitte Central Europe Private Equity Confidence Survey that we have been running since 2003. Our most recent survey shows further spread of optimism throughout Central Europe's private equity community as practitioners look to the future with greater confidence than at any time since early 2008.

2009 was a tough year for Private Equity globally including Central Europe – debt became more expensive and less available, future growth was hard to gauge, stock markets were way down, valuations were hard even to compute and those seeking funding found several Limited Partners closed to investment in new funds.

2010 is looking much more positive - the recovery in stock markets and improved availability of debt has bolstered sentiment. There is a continuing belief amongst economists in the convergence effect that should see economies in Central Europe grow at a faster pace than in Western Europe over the medium term. This relatively good news has led to increased interest in doing deals, but we are still nowhere near the levels being completed two or three years ago. Deals are taking noticeably longer to get done with more thorough due diligence being carried out by PE funds and cautious banks.

Here are a few selected statistics from our survey: 96% of respondents expect the economic climate to improve or remain stable; none expect a decline in the availability of debt finance; 87% expect to see deal sizes increase or stay the same.

For me, though, the two most telling stats are as follows: 74% expect to spend most of their time pursuing new investment opportunities, and 96% expect the efficiency of their financial investments to improve or remain the same.

This gives me the impression of a PE market that has returned to active life, with the risk of sharply declining investment values now perceived as being largely behind us.

That said, the environment is dynamic. Economies globally have a huge amount of debt on board which will curtail growth. We are also all left wondering what surprises await us (our survey took place before the Greek crisis and the subsequent bailout) so the full impact of these latest challenges are yet to be measured or fully understood as to who pays and when.

Garret Byrne

Garret Byrne
Partner
M&A Transaction Service Leader
Central Europe

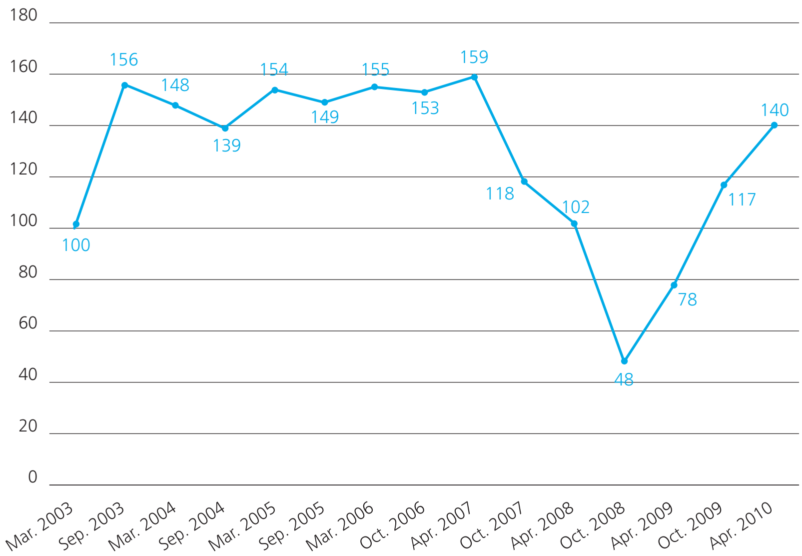
May 2010

Overview

Key findings

- The survey carried out in the spring of 2010 showed a strengthening of optimism with a greater focus on deal activity.
- Some improvement in the availability of debt finance has made buyers more confident about pursuing deals.
- New investments continue to be the primary focus for PE practitioners.
- There is a strong interest in defensive sectors, including food and drink, manufacturing and healthcare.
- While there are greater expectations for secondary PE exits, sale to strategic buyers remains the most widely expected means of exit.

Central Europe PE Confidence Index



Central European Private Equity Index

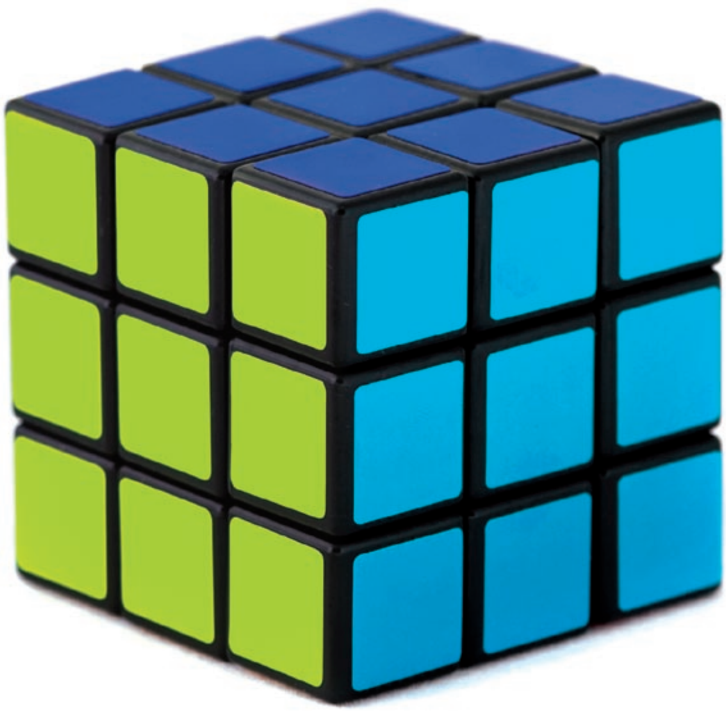
The upward trajectory of the Index since its all-time low of 48 in October 2008 has continued, with a rise from 117 in October 2009 to 140 today. This is close to pre-crisis levels.

The April 2010 survey adds further substance to the findings of six months ago, with only 4% of respondents expecting to see a decline in the region's economic environment. More compellingly, no respondent expected the availability of debt finance to decrease and 100% expected M&A market activity to remain the same or increase over the next six months. In fact, the level of 65% predicting such an increase is the highest since late 2003 – although this is clearly due to the historically low levels of deal activity of recent times.

Looking back to the darkest days of 2008, more than half our respondents expected to spend their time on portfolio management. Now, nearly three-quarters expect to be focused on new investment opportunities over the next six months, clearly demonstrating the extent to which expectations at least have turned around in the interim.

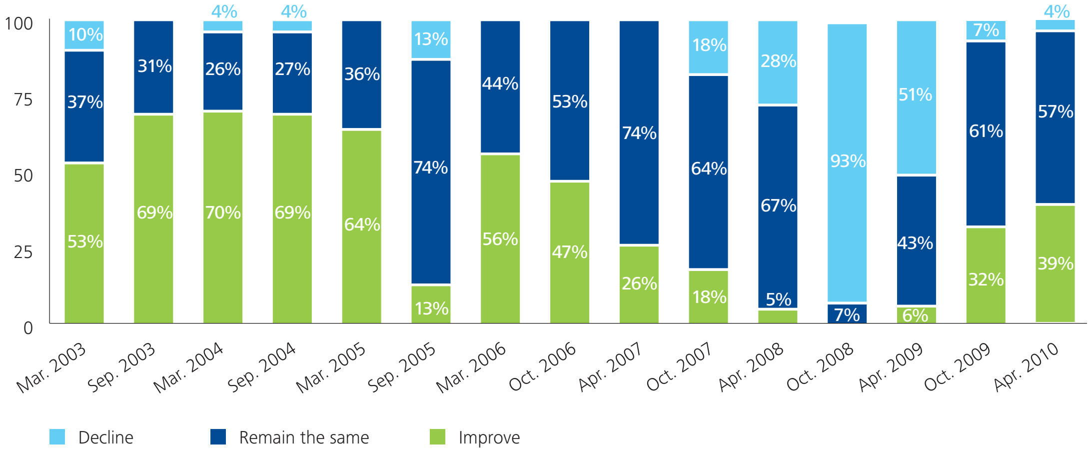
The main challenge over the next six to 12 months will be to convert this growing optimism into completed deals that deliver value and further fuel economic recovery across the region.

Survey results



Survey results

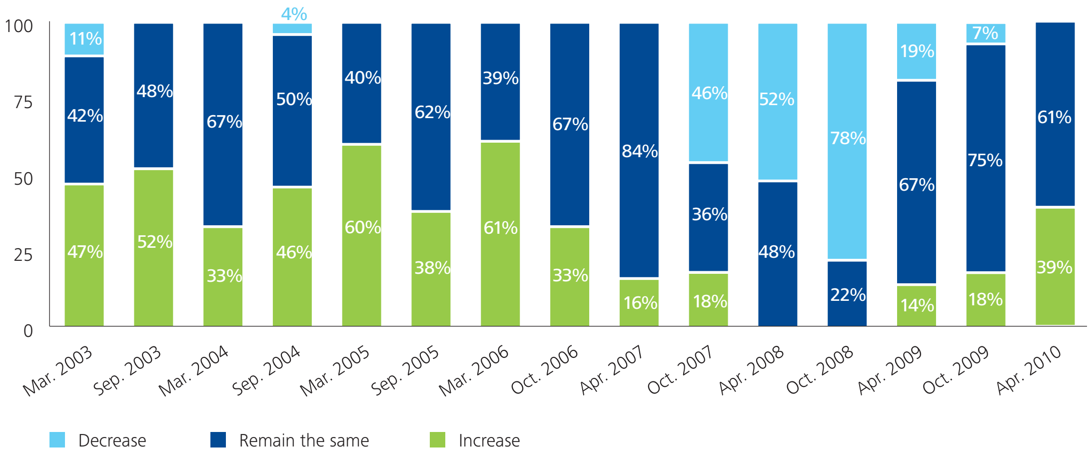
For this period, I expect the overall economic climate to:



Economic climate

An emerging picture of optimism in most countries across Central Europe has sharpened considerably in the 12 months since April 2009, when just 6% of respondents expected economic improvement and 51% predicted further decline. One year on, more than 96% expect the regional economy to improve or remain stable, following the more optimistic trend set in our October 2009 report. In general, growth is not expected to return to the levels of 2006 – 07, but it is expected to recover slowly over the next six months. These findings are broadly consistent with those of the recently published third edition of the Deloitte Business Sentiment Index (BSI), which showed a generally positive mood in Central Europe.

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

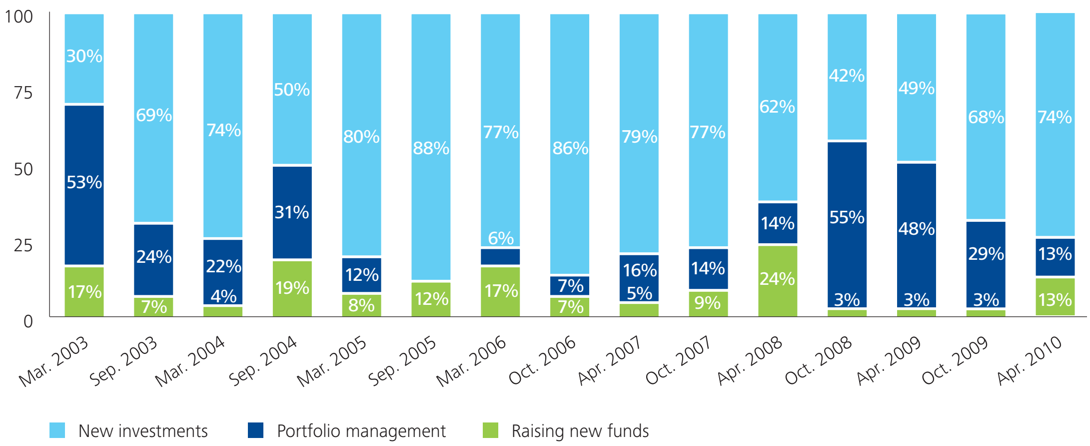


Debt availability

No respondents expected the availability of debt finance to decrease over the next six months, while 39% expect to see an increase. This means that a clear majority (61%) expect debt availability to remain at today's subdued levels. Anecdotal evidence suggests that debt finance, whilst available, is attracting higher margins and is available at lower multiples than before the crisis.

The April 2010 report contrasts starkly with that of October 2008, when 78% expected to see further decreases in availability. It also largely concurs with the April 2010 Deloitte Business Sentiment Index, which showed 75% of respondents viewing credit as somewhat or more easily available.

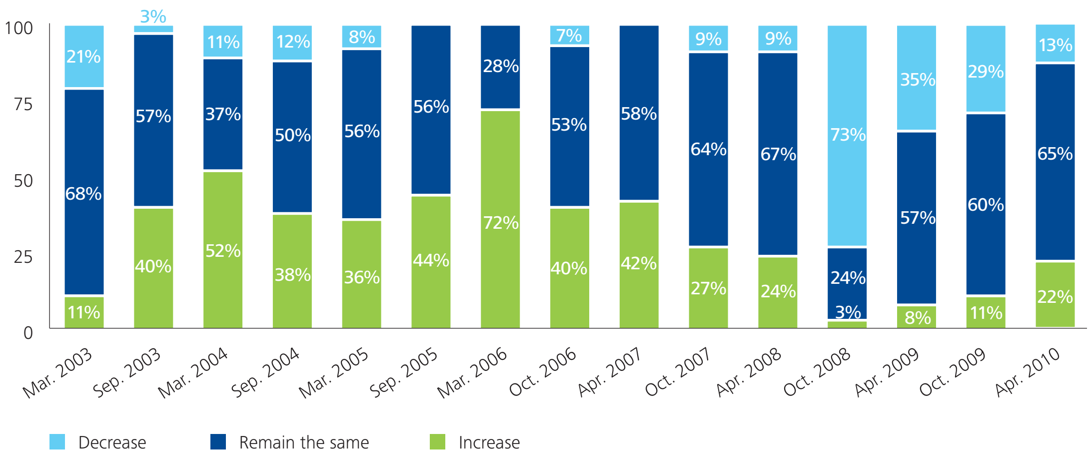
For this period, I expect to spend the majority of my time focusing on:



Investors' focus

Eighteen months ago, more than half (55%) of respondents claimed to be spending most of their time focused on portfolio management. Today, the picture is very different, with close to three-quarters (74%) pursuing new investment opportunities. This concurs with anecdotal evidence that we see on the ground of PE funds keen to get deals done in 2010.

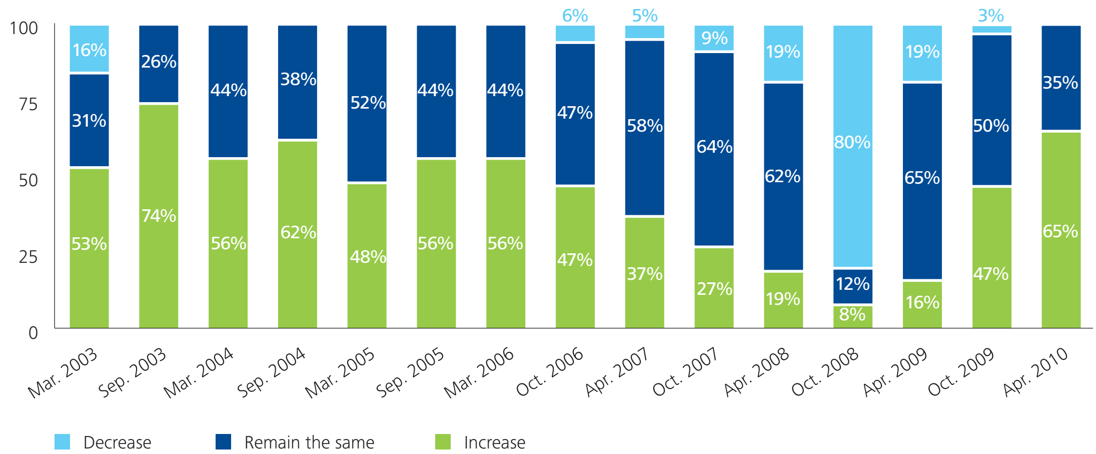
For this period, I expect the average size of transactions to:



Size of transactions

With some notable exceptions deal sizes have been on average rather low in 2009. A number of deals have got done with a minimum of leverage but several have been sub €20m deals. Effectively, the 65% who predict similar-sized deals to those of today foresee the continuation of an environment in which the focus is on the lower end of the mid-cap deal space.

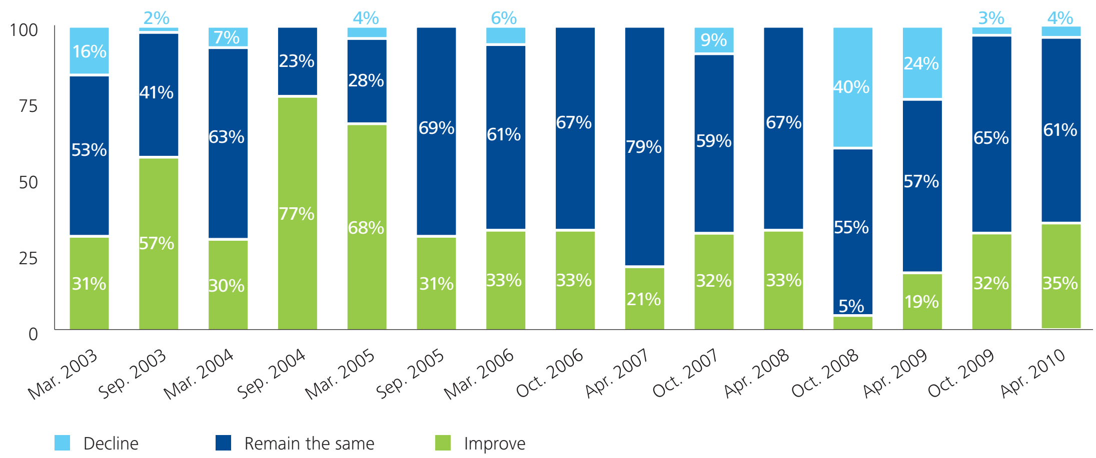
For this period, I expect the overall market activity to:



Market activity

Since the nadir of October 2008 and the still gloomy picture of April 2009, there has been a remarkable turnaround in opinion over 18 months to the point where no respondents expect any further decrease in M&A market activity. The level of 65% predicting an increase in activity is the highest for six-and-a-half years, although this is clearly the result of the very low levels of the last two years from which the only way is up. Major investments such as that by CVC Capital Partners into the Anheuser-Busch InBev assets in Central Europe are still extremely rare.

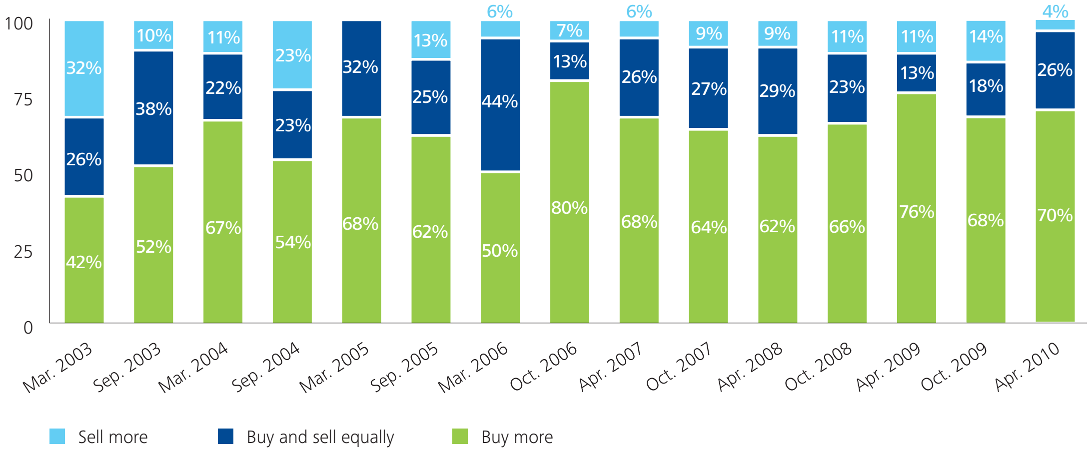
For this period, I expect efficiency of my financial investments to:



Investment return

This is a key economic question, as it relates to the commercial and financial performance of portfolio companies. There has been slight growth over the last six months in the proportion of respondents predicting improvement among their companies (from 32% to 35%), but this contrasts vividly with the highly significant increase in confidence from this metric's low of 5% just 18 months ago. Burgeoning stock market performance in the intervening time provides support for today's more positive outlook, meaning too that a prediction of unchanged performance (61%) might also be perceived as an optimistic statement.

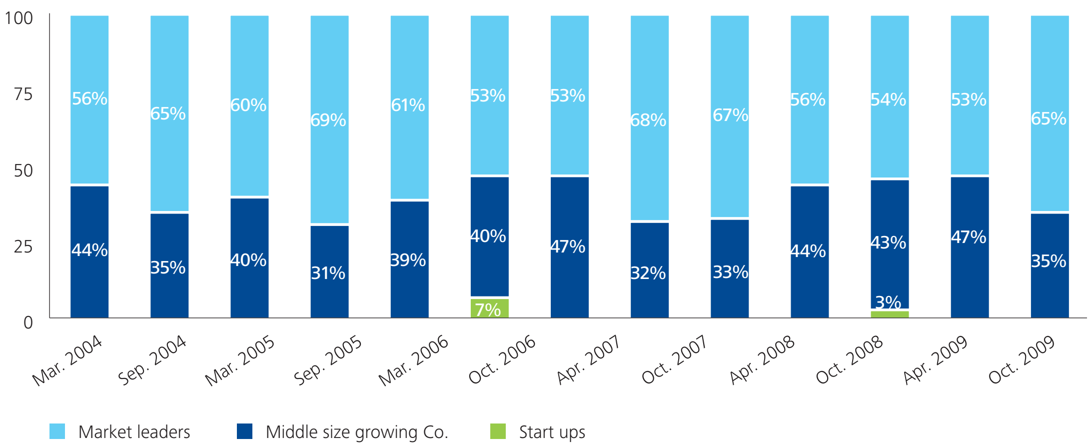
For this period, I expect to:



Investors' activities

Respondents expecting to buy more have represented over half the sample in every survey we have conducted since its second issue in September 2003. This edition is no exception, with a dominating 70% looking to buy, a slight increase over six months ago, but a slight decline since April 2009, suggesting a broadly settled view of the situation among our sample. The findings also indicate that a clear majority of PE professionals always expect to find opportunities that represent growth potential and value under most market conditions.

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



New investments competition

It is not surprising that proven market leaders are seen to represent the most attractive targets for private equity, due to their lower risk profile and the ability they provide to leverage profitable growth from their market dominance, economies of scale and opportunities for new efficiencies. Having said that, more than a third (35%) of investors expect to target medium-sized companies because of the growth opportunities they present.

Over the last decade, there have been some significant changes in the sectors expected by respondents to generate the largest number of purchase opportunities. Defensive sectors are now the most popular, with manufacturing, healthcare and food and drink gaining significantly more support than five years ago.

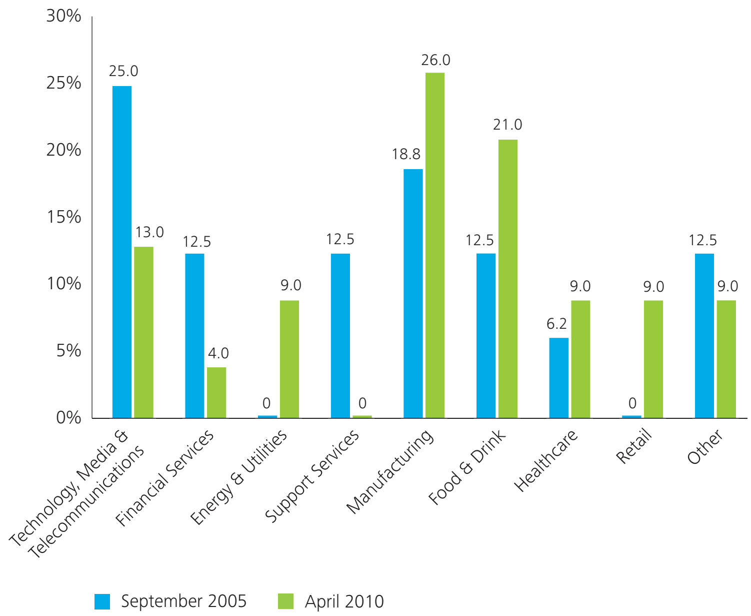
The former dominance of the TMT (Technology, Media and Telecommunications) sector has been the biggest loser, falling from 25% in 2005 to 13%. This is despite recent deals in countries including Slovenia (Mid-Europa Partners buying UPC Slovenia) and Bulgaria (with EQT's purchase of CableTel).

In the food and drink sector (up from 12.5% to 21%) deals included the purchase of leading Polish restaurant and club chain R&C Union by the Enterprise Investors Venture Fund. There are currently many deals in play in this sector on which we expect to comment in our next survey.

In healthcare (which stood at 9% versus 2005 level of 6.2%) we saw EQT V Ltd buy all outstanding shares in HTL-Strefa S.A., the listed Polish manufacturer of safety and personal lancets.

Despite a fall in expectations for the financial services sector (from 12.5% in 2005 to 4% in 2010), we believe that private equity houses may be able to seize opportunities from banks and other institutions seeking to fill funding gaps by selling assets in Central Europe.

Which industry sector do you expect to generate the largest number of purchase opportunities in the next six months?

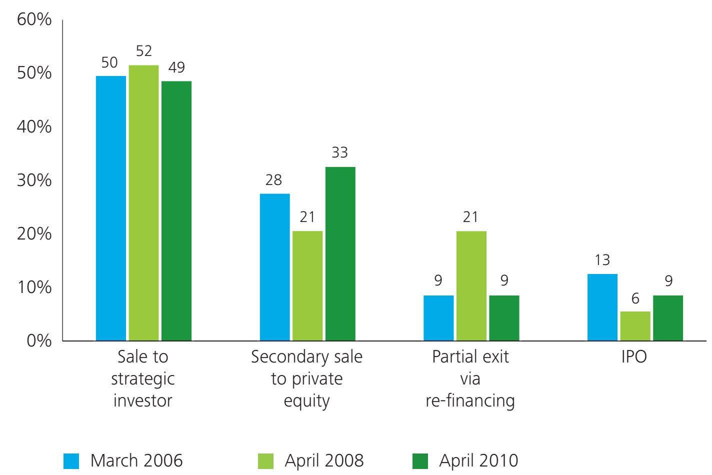


Our survey shows that sales to strategic investors continue to be the most likely exit routes. Secondary sales to private equity are also seen as realistic options.

Rising stock exchange indices, particularly in Prague and Warsaw, will continue to have a positive impact on company valuations in the short term and so lead to greater interest in the IPO route in months to come.

The tightening credit market, the high cost of debt and the availability of lower multiples have conspired to reduce interest in refinancing.

During the next 6 months I expect the following exit routes to be most dominant:



Fund raising

Company	Fund	Period	Value m Euro	Status	Description
CRG Capital	CEE Special Situations Fund	January 2010	200-target	Launched	Fund manager CRG Capital, which operates in Central and Eastern Europe, has launched a new fund aimed at acquiring, turning around and resolving underperforming companies in the region to support recovery. It aims to raise €200m, with EBRD, IFC, and CRG Capital initially committing a total of €36m.
Syntaxis	Syntaxis Mezzanine Fund II	December 2009	140	First Closing	Syntaxis Capital, a mezzanine firm, has held the first close of its second Central European fund, with commitments of €140m. The fund, which is targeting €250m, aims to provide capital alongside private equity funds in buy-outs. It will also fund growing companies to enable acquisitions, expansion and recapitalisation.

Selected significant exits

Company	Country	Seller	Buyer	Period	Value m Euro	Stake	Description
Invitel International Hungary Kft	Hungary/ Turkey	Mid Europa Partners LLP	Turk Telekomuni-kasyon AS	May 2010	197	N/A	Invitel, a portfolio company of Mid Europa Partners LLP, has agreed to sell its International Wholesale Business to Turk Telekom (Türk Telekomünikasyon A.S.) for €197m.
Jelgavas Galas Kombinats AS	Latvia	Masa Capital Partners	Rigas Miesnieks	March 2010 - pending	N/A	91%	Rigas Miesnieks , the Latvia-based meat company, has agreed to acquire for an undisclosed sum a 90.85% stake in smoked meat producer Jelgavas Galas Kombinats AS from Masa Capital Partners, the Latvia-based private equity firm, and others.
Centrul Medical Unirea S.R.L	Romania	3TS Capital Partners	Advent International Corporation	February 2010	40	80%	Advent International Corporation has acquired Centrul Medical Unirea SRL (CMU), the Romania-based provider of ambulatory and inpatient medical services, for approximately €40m.
Zaklady Przemyslu Cukierniczego Mieszko S.A.	Poland	Alta Capital Partners	UniCredit Bank AG	January 2010	28	66%	UniCredit Bank AG has acquired Zaklady Przemyslu Cukierniczego Mieszko S.A. from Netherlands-based Central European Confectionery Holdings BV and Alta Capital Partners, a Latvia-based venture capital firm, for approximately €28m.
Wosana S.A.	Poland	CRG Capital	Pawel Lyson, the Poland private investor	December 2009 - pending	N/A	42%	Pawel Lyson, a Polish private investor, has agreed to acquire Wosana SA, a Poland-based mineral water and juice company, from the Austria-based private equity fund CEE Private Equity Fund LP, for an undisclosed consideration.
Plastkov MR a.s., Plastkov Automotive s.r.o. & BTV plast, s.r.o.	Czech Republic	Benson Oak Capital	Megatech Industries S.L	December 2009 - pending	N/A	100%	Megatech Industries SL, the Spain-based automotive component company, has acquired the Czech Republic-based components business the Plastkov Group from Benson Oak Capital, the Czech Republic-based private equity firm, for an undisclosed consideration.

Investments

PE House	Country	Company	Period	Value m Euro	Stake	Description
Penta Investments Limited	Czech Republic	Mezservis spol sro	May 2010	N/A	100%	Penta Investments Limited has acquired Czech-based electronics production, installation and repair company MEZSERVIS spol s.r.o. for an undisclosed consideration.
Mid Europa Partners LLP	Czech Republic	Energy 21, a.s.	May 2010	N/A	more than 30%	Mid Europa Partners entered into an agreement to acquire for an undisclosed consideration a strategic stake in Czech-based Energy 21, a.s., the largest independent developer and operator of solar power (photovoltaic) parks in Central and Eastern Europe.
Abris Capital Partners	Poland	Masterlease Polska	April 2010	182,6	N/A	Abris Capital Partners, the Poland based private equity firm, has acquired a controlling stake in Masterlease Polska, the Poland-based car leasing and car fleet management company, for approximately €182.58m.
Axxess Capital	Romania	Noriel Group	March 2010	7	40%	Balkan Accession Fund (BAF), the Romania-based private equity fund of Axxess Capital, has acquired Noriel Group, the Romania-based toys and games distributor and cardboard games producer, for approxi-mately €7m.
ODIEN Asset Management s.r.o.	Czech Republic	FIRO-tour a.s.	March 2010 - pending	N/A	100%	Odien Group, the Czech Republic-based private equity firm, has agreed to acquire FIRO-tour a.s., the Czech Republic-based travel agency, for an undisclosed consideration.
Advent International	Poland	Wydawnictwa Szkolne i Pedagogiczne S.A.	February 2010	82,9	85%	Wydawnictwa Szkolne i Pedagogiczne S.A., a listed Poland-based educational materials publisher head-quartered in Warsaw,, has agreed to be acquired by Pahoa Investments Sp. z o.o via a public tender offer, for approximately €82.9m.
Mid Europa Partners LLP	Poland	Hyperion S.A.	February 2010 - pending	15,7	66%	Poland-based TV, broadband and mobile/fixed line telephony provider Aster City Cable Sp z o. o, which is a portfolio company of Mid Europa Partners LLP, has agreed to acquire listed Poland-based telecoms service provider Hyperion S. A. for approximately €15.7 million.
Penta Investments	Czech Republic	PR Market, s.r.o.	February 2010 - pending	N/A	100%	Penta Investments, the Slovak and Czech investment group, has reached agreement to acquire the PR Market, s.r.o. supermarket chain in the Czech Republic, for an undisclosed consideration.
Innova Capital Sp. z.o.o	Poland	Libet S.A.	February 2010	N/A	100%	Innova Capital has acquired Libet SA, a Polish producer of concrete paving. The firm took over 100% of shares in the company through its fourth fund, Innova/4, for an undisclosed consideration.
Centralway Holding AG	Slovakia	Digital Dreams, s.r.o.	February 2010	N/A	30%	Centralway Holding AG, the Switzerland-based private equity group, has acquired Digital Dreams, s.r.o., the Slovakia-based e-retailing service provider, for an undisclosed consideration
Arx Equity Partners s.r.o.	Poland	Intermedica Sp. z o.o	January 2010	N/A	30%	Intermedica, the Poland-based eye clinic network has been taken over by private equity Arx Equity Partners, for an undisclosed consideration.

PE House	Country	Company	Period	Value m Euro	Stake	Description
BaltCap	Estonia	Air Maintenance Estonia AS	January 2010	N/A	100%	BaltCap, the Estonia-based private equity firm, has acquired Air Maintenance Estonia AS (AME), the Estonia-based aircraft maintenance and repair company, from Scandinavian Airlines (SAS), for an undisclosed consideration.
Enterprise Investors	Poland	Polske Biuro Podrozy Orbis Sp. z o.o	January 2010 - pending	N/A	95%	Enterprise Investors has agreed to acquire a 95.08% stake in Polish tour operator Polske Biuro Podrozy Orbis Sp. z o.o, from Orbis SA, the listed Poland-based hospitality and tourism company, for an undisclosed consideration.
Tar Heel Capital, LLC	Poland	Rurgaz Sp. z o.o	January 2010 - pending	6,8	100%	Radpol SA, the listed Poland-based producer of heat shrinkable goods, has agreed to acquire Rurgaz Sp. z o.o, the Poland-based polyethylene and polypropylene pipe producer, for approximately €6.8m.
CAPPA Fund Management	Slovakia	Transpetrol AS	December 2009	66	34%	CAPPA Fund III LLC, the US-based investment fund of CAPPA Fund Management, has acquired a 34% stake in Transpetrol a.s., the Slovakia-based oil transport and storage company for approximately €66m.
CVC Capital Partners Limited	Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Romania, Serbia & Slovakia	Anheuser-Busch InBev	December 2009	1 493	100%	Anheuser-Busch InBev (ABI), a Belgium-based brewer and consumer products company, has sold its Central European operations to CVC Capital Partners Limited, for approximately €1.5bn.
AnaCap Financial Partners LLP	Czech Republic	Banco Popolare Ceska Republika a.s.	December 2009 - pending	46,5	100%	AnaCap Financial Partners LLP, the UK-based private equity firm, has agreed to acquire Banco Popolare Ceska Republika a.s., the Czech Republic-based bank, from Gruppo Banco Popolare Societa Cooperativa for approximately €47m.
IFC Capitalization Fund, Swedfund International AB	Serbia	Komercijalna Banka AD Beograd	December 2009 - pending	117,5	N/A	US-based IFC Capitalization Fund, along with the European Bank for Reconstruction and Development (EBRD), Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), and Swedfund International AB, has agreed to acquire an undisclosed interest in the Serbian bank Komercijalna Banka AD Beograd, for approximately €117.5m.
Advent International	Bulgaria/Czech Republic	Devin	November 2009	N/A	79%	Advent International has acquired 79% of Bulgarian mineral water bottler and soft drink distributor Devin from Austria's Soravia Group, for an undisclosed consideration.
Royalton Partners	Poland	COOL AR	November 2009	N/A	93%	Royalton Partners, a Central and Eastern European private equity firm, has acquired COOL AR, a Polish parking zone operator, through its portfolio company ACTIV Parking Holdings, for an undisclosed consideration.

PE House	Country	Company	Period	Value m Euro	Stake	Description
3TS Capital Partners	Romania	InternetCorp	November 2009	N/A	N/A	3TS Capital Partners, the Growth Capital Investor for Central and Eastern Europe, has said that its 3TS Cisco Growth Fund has bought a minority interest in InternetCorp, a leading Romanian independent online media company, for an undisclosed consideration.
Mid Europa Partners LLP	Hungary	Invitel Holdings AS	November 2009	736,9	65%	MidEuropa has acquired a 65% stake in Invitel Holdings AS, a Hungarian provider of telecom services, for approximately € 737m.
EQT Partners AB	Poland	HTL-Strefa SA	November 2009	237,3	100%	EQT V Ltd, the UK-based private equity fund of EQT Partners AB, has made a public tender offer to acquire HTL-Strefa SA, for approximately €237.3m, via Terantium Investments Sp. zo.o, its Sweden-based acquisition vehicle.
Enterprise Investors	Romania	Profi Rom Food Srl	November 2009 - pending	66	N/A	Polish Enterprise Fund VI LLP, the Poland-based private equity fund managed by Polish private equity firm Enterprise Investors, has agreed to acquire Profi Rom Food Srl, the Romanian food retail chain, for approximately €66m.
Lime Rock Partners	Romania	Expert Petroleum Ltd	November 2009 - pending	17,2	N/A	Lime Rock Partners, the US-based private equity firm, has agreed to acquire Expert Petroleum Ltd, the Romanian innovative upstream oil and gas company that redevelops and rehabilitates mature oil and gas fields, for approximately €17.2m.

Contacts & Additional resources

Private Equity Regional contacts

Garret Byrne
M&A Transaction Services Leader
+420 246 042 339
gbyrne@deloitteCE.com

Bela Seres
Regional Managing Partner
Financial Advisory
+36 1 428 6936
bseres@deloitteCE.com

Miroslav Svoboda
Tax M&A Leader
+420 246 042 924
msvoboda@deloitteCE.com

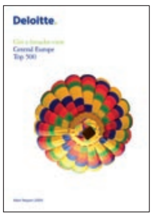
Dariusz Kraszewski
Consulting M&A Strategy & CDD
+48 22 511 06 33
dkraszewski@deloitteCE.com

Central European Private Equity Confidence Survey
Central European Private Equity Confidence Survey reflects the expectations of private equity professionals focusing on Central Europe. The survey has been conducted twice a year since March 2003 and the results are based on questionnaires sent to private equity firms around the region.

Previous editions are available at ***www.deloitte.com/ce-private-equity-confidence***

Deloitte Business Sentiment Index
The Deloitte Business Sentiment Index is a research-based analysis of the opinions of senior executives on a number of important business-related issues. The executives who participate in the Business Sentiment Index represent some of the largest companies within six countries of Central Europe: Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia.

For more information go to ***www.deloitte.com/bsi***



Deloitte CE Top 500 report
The Deloitte Central Europe (CE) Top 500 report ranks the 500 largest companies in the region and draws on the knowledge and insights of Deloitte's professionals along with renowned economists and academics to provide a valuable regional commentary on current business and industry trends. The report makes a special focus on seven industry sectors and provides analysis of the dramatically differing corporate results seen between Q1 2008 and Q1 2009. Overall, it provides an in-depth and wide ranging insight of the latest Central European developments and is an essential tool for understanding the wider dynamics at play across the region. The next edition will be released in October 2010.

For more information go to ***www.deloitte.com/cetop500***

FSI Magazine
The FSI Magazine, a Deloitte periodical is being published in the Netherlands, Belgium, Germany, Denmark, Luxemburg and the Central European region. It is a unique platform, containing high quality editorial and analysis of the key issues facing the financial sector.

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