

PE Portfolio Value Creation Strategies

- *Alexander Voronkov, Head of Moscow investment department*

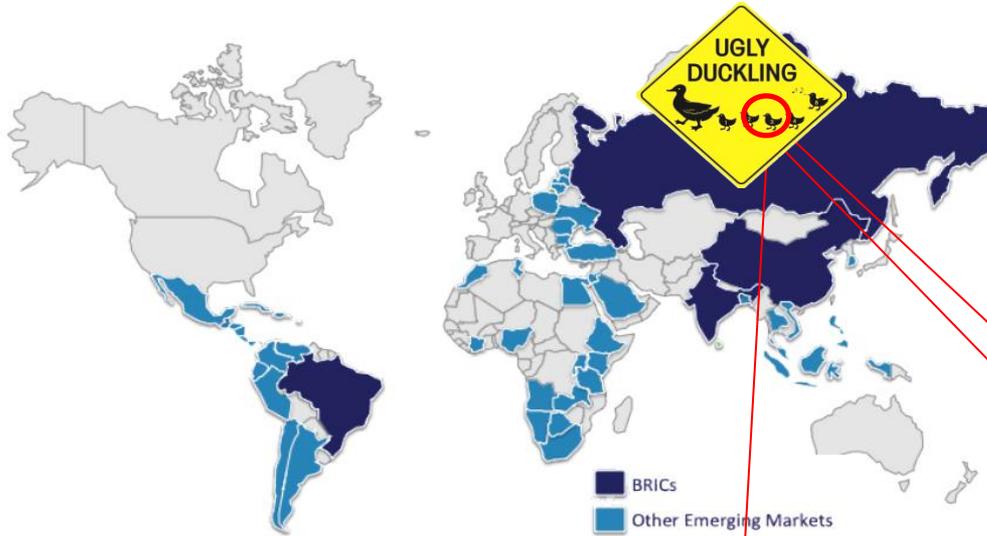
• *October 2012*

Russian PE is the worst EM perceived by international LPs

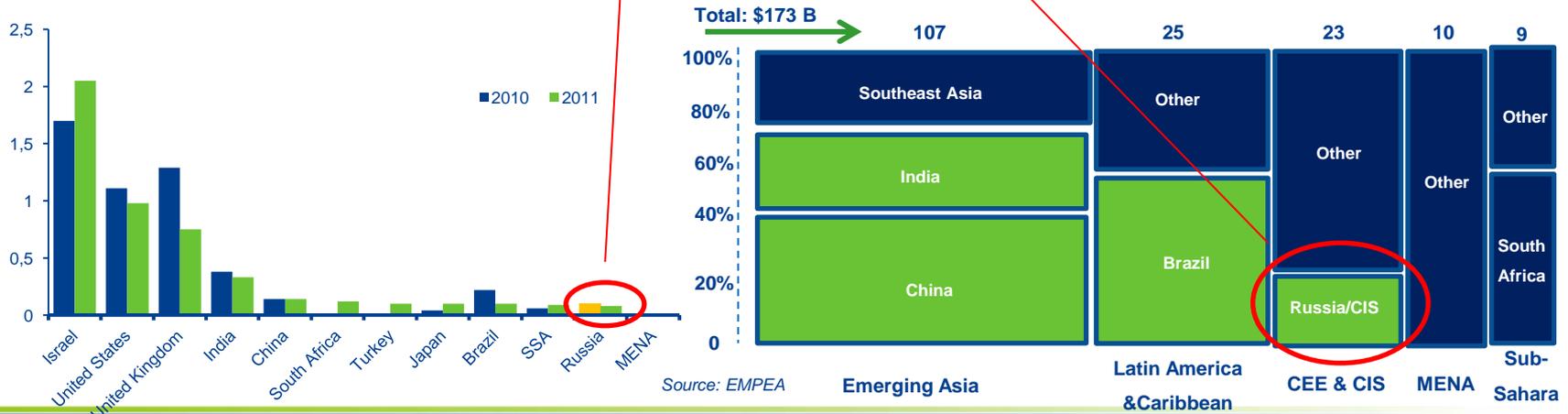
The Attractiveness of Emerging Markets for GP Investment over the next 12 months – LP Views

	Overall Ranking		
	2012	2011	2010
Latin America (ex Brazil)	1	4	5
Brazil	2	1	2
China	3	2=	1
Other Emerging Asia	4	2=	4
Sub-Saharan Africa	5	7	8
India	6	5	3
Turkey	7	6	N/A*
Russia/CIS	8	10	10
MENA	9	9	9
Central & Eastern Europe	10	8	6

Source: EMPEA



Emerging market PE capital investment by region 2007–2011



Russia generally looks like an attractive market for international investors

Key risks as usual for Russia – regulatory/tax and political risks

	Limited number of established GPs	Oversupply of funds/too competitive	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/tax issues	Political Risk
China	6%	6%	0%	0%	6%	31%	31%
India	13%	20%	7%	33%	13%	20%	20%
Southeast Asia	13%	0%	20%	7%	13%	20%	7%
Russia/CIS	20%	0%	13%	3%	15%	50%	73%
Turkey	32%	7%	21%	7%	11%	18%	25%
Cent./East. Europe	21%	4%	25%	8%	8%	13%	25%
Brazil	13%	27%	0%	7%	0%	0%	7%
Latin Amer. (ex. Brazil)	29%	0%	12%	6%	24%	18%	29%
MENA	34%	2%	32%	5%	24%	37%	63%
Sub-Saharan Africa	50%	0%	41%	3%	28%	38%	66%

Source: EMPEA Global Limited Partners Survey 2012



Russia's political risks of instability has greatly receded

- ✓ The threat of political instability only lasted for a brief period.
- ✓ There is no credible risk of a return to instability over the medium term.
- ✓ Economic stability is a key factor in maintaining social and political stability.
- ✓ Public support for both the president and the prime minister has largely recovered to pre-election levels.



WHO REFORMED IN PAYING TAXES IN 2011/12?

- Doing Business 2013



Source: EBRD, World Bank

May '08 Sept '09 Aug '10 Jan '11 Jan '12 July '12 Aug '12 Sept '12

	May '08	Sept '09	Aug '10	Jan '11	Jan '12	July '12	Aug '12	Sept '12
Vladimir Putin								
Approve	84%	76%	78%	72%	64%	67%	63%	68%
Disapprove	12%	18%	16%	25%	34%	32%	35%	31%
Dmitri Medvedev								
Approve	66%	67%	71%	69%	57%	59%	57%	61%
Disapprove	19%	24%	21%	29%	41%	39%	41%	38%

Source: Levada Center

Russian PE advantages

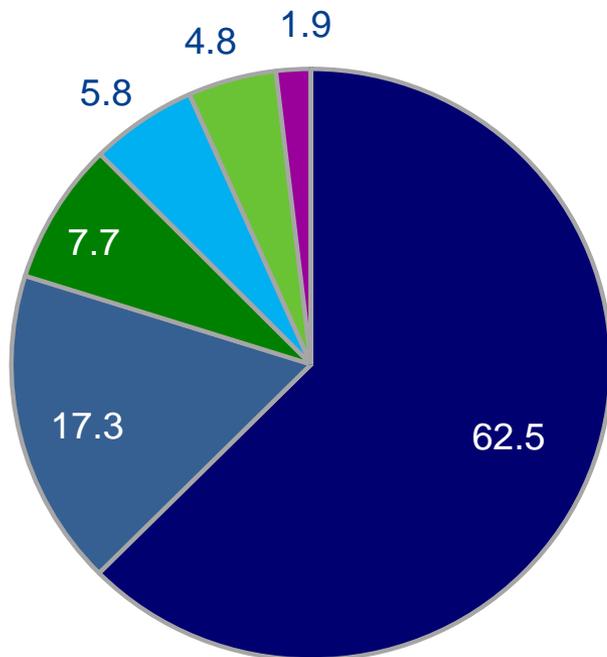
Investors, who seek growth outside the commodity sector, have no other way but direct equity investments in dynamic SMEs

RTS Index, %

NO ACCESS

to the broader national economy

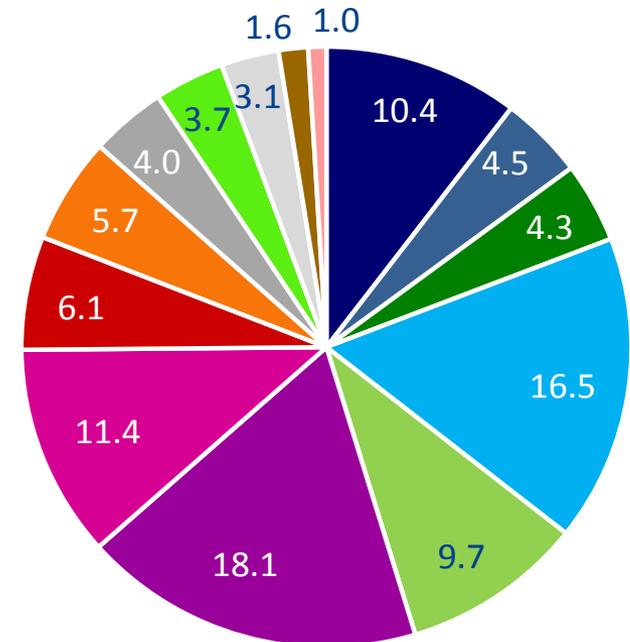
- Minerals
- Financials
- Utilities
- Manufacturing
- Transportation and telecoms
- Wholesale and retail trade
- Professional & Real Estate Services
- State services
- Construction
- Agriculture, fishing and forestry
- Healthcare and social services
- Education
- Other services
- Hospitality



Gross Value Added, %

ACCESS

to diversified market opportunities



Russian vs. global PE risk / return profile

Russia is among the best performing PE markets over 10 years by far outperforming average European and Emerging Markets PE returns. PE portfolios, which include Russia provide higher average returns.

Country / Region	Risk % premium
Russia / CIS	8.4
Brazil	6.4
China	6.4
India	6.4
CEE (incl. Turkey)	6.4
South Africa	7.0
Other Emerging Asia	7.3
Middle East	7.3
Latin America (ex. Brazil)	7.5
North Africa	8.0
Sub-Saharan Africa (ex S. Africa)	8.4

RUSSIA'S EXCESS risk / return profile



2%

VS.

5-10%

RISK premium

RETURN

vs. the least risky EMs p.a./ 5-10 YR period

vs. EM PE Index



Returns as at Dec. 31'09		1 Yr, %	3 Yrs, %	5 Yrs, %	10 Yrs, %
\$	Cambridge EM VC/PE	8.3	3.5	20.6	15.0
U	Russia/CIS	16.7	0.6	32.3	20.1
S	EBRD PE Portfolio - All	6.4	5.2	25	16.9
€	EVCA, All PE	7.7	-3.9	6.5	5.2
E	EBRD PE Portfolio - All	3.6	2.4	27.4	11.8
U	Russia/CIS	14.1	-2.4	35	14

↑ LPs' perception of risk premiums for EM PE funds vs. developed-market buyout funds

Bottom line is that "economic risks" are much more manageable today than was the case in 2008-09.

Four basic strategies to create value

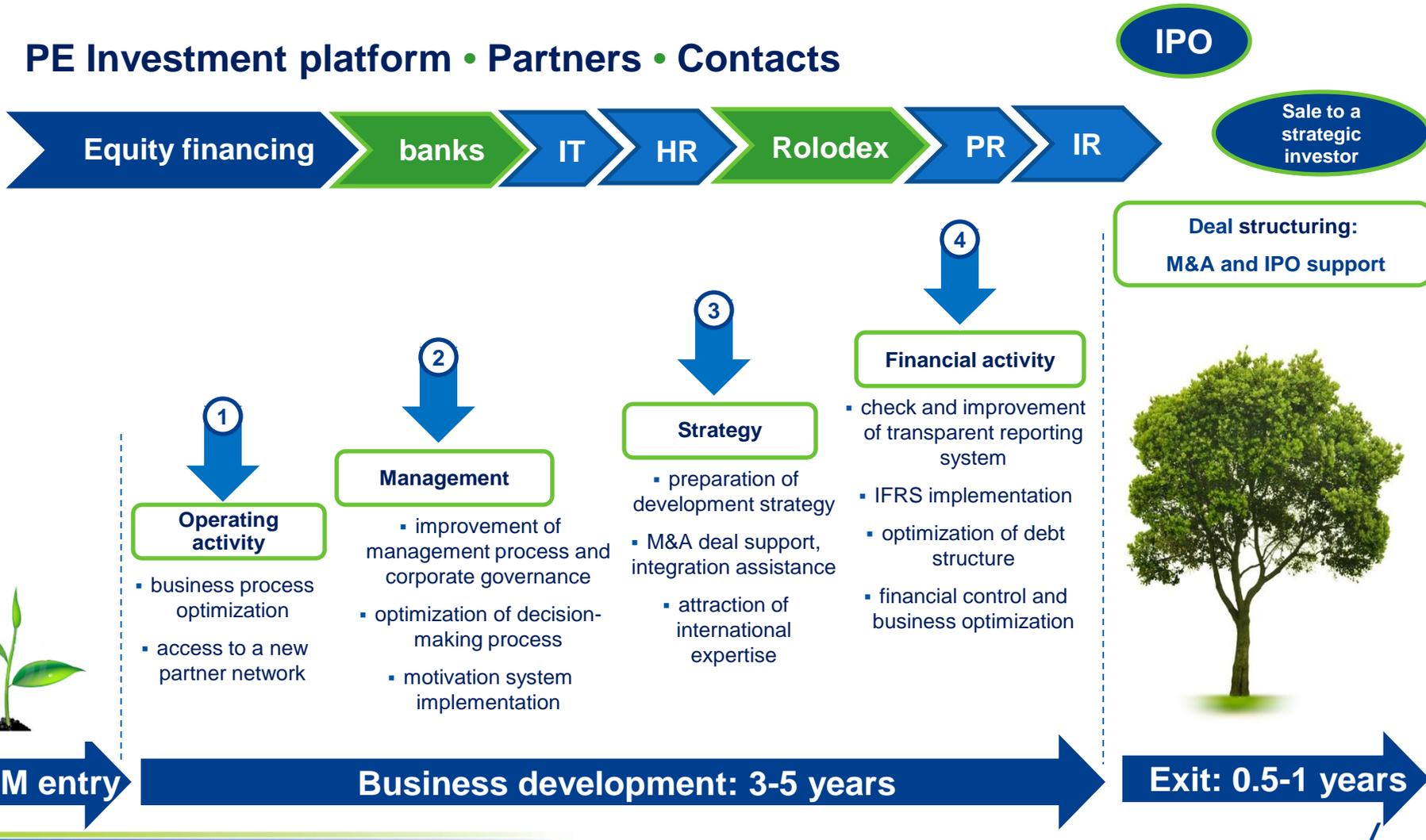
Investment strategies

	Equity	Cash out by dividend	P/E at entry	P/E at exit	Revenue growth p.a.	Margin improves
Leverage	+ ↓	+ ↑	-	-	-	-
Multiple Expansion	-	-	+	+ ↑	-	-
Growth	-	-	-	-	+ ↑	-
Efficiency	-	+ ↑	-	-	-	+ ↑

In emerging markets Value is mostly driven by growth and efficiency strategies

Value-added creation

PE Investment platform • Partners • Contacts



Good corporate governance – good value

80% of institutional investors would pay a premium for well-governed company

Poor governance

- Minority of outside directors
- Outside directors have financial ties with management
- Directors own little or no stock
- Directors compensated only with cash
- Very unresponsive to investor requests for information on governance



EM ranking

Russia	38%
Turkey	27%
Indonesia	25%
China	25%
Brazil	24%
Poland	23%
India	23%
Malaysia	22%
South Africa	22%

Good governance

- Majority of outside directors
- Outside directors are truly independent
- Directors have significant shares
- Material proportion of directors' compensation is stock-related
- Very responsive to investor requests for information on governance

Selected case studies • food processing • Russia



Sector: rice packaging and production

Shareholding: 25% +1

Transaction type: Expansion

Location: Krasnodar region, St. Petersburg, Novorossiysk, Vladivostok

Target IRR: >25% **Exit:** 2014

Rice packaging and production

- a top-3 leader in grain packaging and distribution and a top-2 rice importer with 19% market share and an efficient management team
- FY2007 sales: US\$ 56m, FY2008: US\$ 86m, FY2009 :US\$ 66.5m . In 2009 US\$20m asset portfolio generated US\$ 3.7m net earnings. FY 2010 sales amounted US\$ 69m, net profit accounts to US\$ 3.5 m
- the products are distributed via large federal retail chains: OK, Dixy, X5 Retail Group (Pyaterochka, Karusel), Lenta, Metro, Magnit, Kvartal. Private label packed cereals are also produced for the leading food retailers
- high-end technology solutions, quality equipment base and optimized logistics



Investment rationale

- This leading Russian agro-industrial group owns production facilities and logistic centers located in the largest seaports of Russia
- Russian/ CIS markets traditionally demonstrate higher cereal consumption rates than those of the US and Western Europe. In 2010 rice consumption in Russia was ca. 700,000 tons, i.e. about 5 kg per capita. The market volume is ca. US\$1 bn
- Due to the current government protectionism the project refining plant development in the South of Russia has a huge investment potential
- The market trend shows growth of private label production

Latest developments

- The brand-new production complex in Krasnodar region was fully financed, developed and successfully launched as planned with a rice warehouse, a processing factory, a packaging plant, a logistics terminal and an administrative cluster on a 5 ha site with direct access to a road and a railway freight yard.
- developing direct contracts with agricultural producers, in cultivation of new rice varieties on a parity basis
- strengthening corporate governance, MIS and financial reporting, revising long-term strategy, launched management incentive programme



Sector: paper production

Shareholding: 30%

Transaction type: Expansion

Location: Syctyvkar, Russia

Target IRR: >39% **Exit:** 2016

Paper tissue production

- STG is one of the largest domestic producers of base tissue paper and tissue products.
- The company ranks first in the Russian base tissue paper production with a 26% market share and is rated among the top-3 Russian tissue product manufacturers with an 8% market share.
- The company's high quality products including base tissue paper, toilet paper, napkins, paper towels and other are in demand among the vast and diverse local consumer base with high brand awareness on the markets of Russia and other CIS countries as well as in some Central and Western European markets.
- In 2011 STG revenues amounted to more than RUB 2 billion (15% increase over 2010), and EBITDA –RUB 499 million (25% increase over 2010).



Investment rationale

- The tissue industry in Russia is characterized by robust growth rates (10–15% p.a.).
- The domestic market growth rate is significantly higher than its global comparable.
- The Russian tissue market size is estimated at ca. US\$1 billion.
- The current consumption of paper tissue per capita in Russia is 3 times lower than in Eastern Europe and 6 times lower than in EU.
- There are attractive opportunities in the commercial tissue segment, which is considerably underpenetrated on the domestic market.

Development plans

- STG plans to expand its production capacity, increase its share in the Russian tissue paper market and support the development and rapid launch of new products.
- By 2016 STG plans to increase its market share to 9-10% and become the second largest tissue producer in Russia.
- **Exit:** Separate sale of group companies to a strategic investor looking for a product diversification or extension of its business to the new geographical market; Initial Public Offering (IPO)

Selected case studies • industrials • Russia



Sector: Industrials
Shareholding: 25% +1
Transaction type: Expansion
Location: Samara, Russia
Target IRR: >35% **Exit:** 2016

Industrials

- a top-3 leader of the bearings market in Russia.
- SPZ Group is one of the largest world manufacturers of tapered, cylindrical and spherical roller and ball bearings with diameter 19 - 4500 mm.
- SPZ Group has enough capacity to increase bits production 2-3 times.
- SPZ Group manufactures and sells its bearings in more than 30 countries of Europe, Asia, and America



Investment rationale

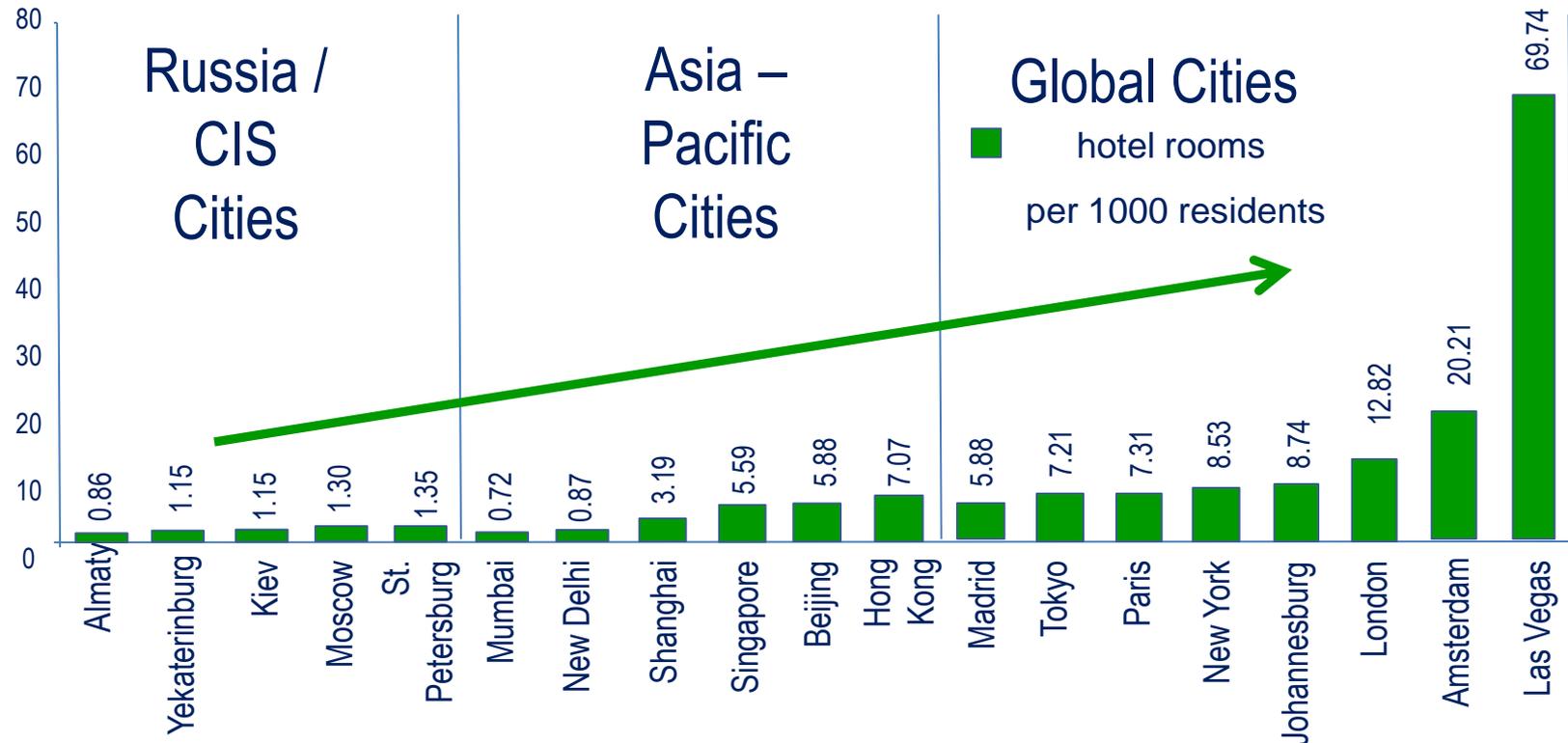
- Sales in the large-size bearing segment grow not less than 20% per year with the current market share of 30-40% and a significant potential for the further positive dynamics due to the stable demand trend on the local and international markets and especially from other emerging economies of Brazil, India and China, with their cumulative market size to reach the estimates of \$1.2 billion p.a. by 2015.
- The Russian current large-size bearing market is estimated at approximately \$140 million and is expected to grow by 5–10 percent annually
- The Russian large-size market is following the general trend of the global bearing market.

Development plans

- SPZ Group plans to expand its large-size bearing manufacturing capacity and increase its share in the global market of roller and ball bearings.
- SPZ Group plans to achieve the highest quality from its products and implement technical policies aimed at enhancing the bearing competitiveness.
- VIYM provides its experience and knowledge of finance planning and its advice of working capital control.
- **Exit:** Separate sale of group companies to a strategic investor looking for a product diversification or extension of its business to the new geographical market,; Initial Public Offering (IPO)

Hospitality asset market growth potential

One of the indicators, characterizing the maturity level of hospitality market, is the supply of hotel rooms per 1000 residents.



The hotel stock used for this analysis is quality hotel rooms in the market that are comparable with international standards.

Hospitality selected projects



Four Seasons Hotel
Lion Palace St. Petersburg

1

The famous mansion of Prince Lobanov-Rostovsky with prime location in the heart of the city is undergoing a full renovation to become the first Four Seasons Luxury Hotel in Russia.



Nikolskiye Ryady Mixed-Use
Crowne Plaza City Center
St. Petersburg

2

The landmark property of Nikolskiye Ryady in the historical centre of St. Petersburg is renovated into an upscale 4-star Crowne Plaza hotel with an A-class business centre, conference, SPA, fitness and retail facilities



Regional Hotel Chain
24 cities across Russia

3

The largest All-Russia mid-market and budget hotel chain developed across Russia's most vibrant regional centers

VIYM Investment platforms

INVESTOR BASE: HNWIs, family offices & institutional investors
The United Kingdom, Continental Europe & Russia

Private Equity Growth Capital VIY Growth Fund I & Co-Investment

- **AUM: \$120 M**
- **Investment geo:** Russia & CIS
- **Investment size:** \$ 3-20M
- **Portfolio diversification:** 8-12 deals
- **Target sectors:** consumer-driven products & services, FMSG and retail, B2B services, high tech, natural resources, media & IT, construction materials
- **Target companies:** fast-growing cash-generating SMEs with strong competitive market positions

selected projects:



Private Equity Real Estate Commercial & Residential RE Co-Investment

- **AUM: \$300 M**
- **Investment geo:** Greater Europe
- **Investment size:** \$ 10-100M
- **Portfolio diversification:** 5-10 deals
- **Target sectors:**
 - hospitality real estate
 - mixed-use developments
 - residential real estate

project brands:



selected projects:



ASSOCIATIONS



SELECTED

INVESTMENT

& INDUSTRY

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