



UFG Private Equity

III Russian M&A Congress

Private Equity approach to M&A deals

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What value Private Equity fund brings



- Over **\$500 million** of capital under management
- Strong and experienced team of **13 investment professionals**
- **5 partners worked as CEO/CFO or had own businesses**, one partner is involved as CEO or a portfolio company
- Strong track record with **19 investments** in FMCG, Consumer and Business services, Metals and Mining, Banking, Specialty Retail, TMT, Food and Beverages, Healthcare, Travel sectors with aggregate transaction value of over **\$1 billion**
- **7** projects were co-invested with other funds
- **8** exits performed with capability to create value
- **International investor base** including EBRD and well-known US and Middle-Eastern state pension funds
- **Part of UFG Asset Management** group with **\$1.2 billion** under management in four investment areas: Private Equity, Hedge Funds, Real Estate, Wealth Management

UFG Private Equity Fund II portfolio companies

Fund Size \$225m

	Yandex	Partially realized
	Rising Star Media	Fully realized
	Russian Towers	Fund II Portfolio company
	Enforta	Fund II Portfolio company
	Brunswick Rail	Fund II Portfolio company
	KDL	Fund II Portfolio company

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Investment approach and key success factors

- 1 Market leaders are typically winning
- 2 Strong and motivated management team
- 3 Fair entry price
- 4 Proper deal structuring
- 5 Proactive monitoring
- 6 Clear exit strategy
- 7 Industry growth and deep market expertise

Investment approach and key success factors

Market leaders are typically winning



Market leaders
are
winning

UFG cases:

- Yandex
- RSM
- Russian Towers
- Brunswick Rail
- Russian Alcohol

How to
determine
market leader?

- **Industry** leader
- Industry **segment** leader
- Leader by **market share**
- Leader by **margins**
- Leader with **first-mover** advantage
- Leader with the most known **brands**
- Potential market leader through M&A or business scalability
- ...

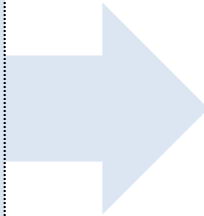
Investment approach and key success factors

Strong and motivated shareholders and the management team



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UFG is not a turnaround team which is coming and taking operational management



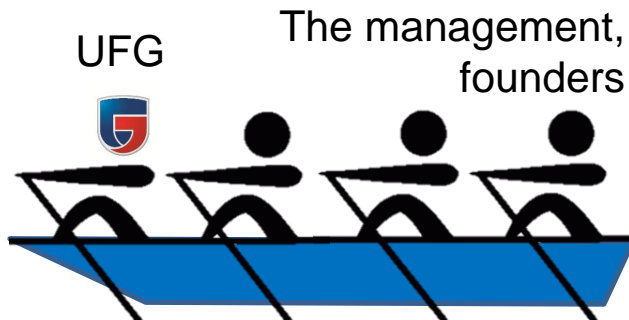
Goal alignment

- Important to **choose a partner you can deal with**. High personal integrity, strong commercial instincts, transparency, flexibility should be among the qualities of the counterparty in the deal.
- **Choice** of the trusted **management team** is important
- The company should not be 100% dependent on 1-2 key shareholders/managers
- **Goal alignment** should be in place to motivate managers and other shareholders:

UFG **upside sharing** scheme may be in place to motivate management on:

- I. Growing the company
- II. Exit

We are all in the same boat



Investment approach and key success factors

Fair entry price



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Fair entry price should be negotiated



- **Clear exit path** should be overseen from the beginning
- **Fair entry multiple** is needed to avoid multiple contraction at exit and achieve good returns
- It is always a **trade-off** between:
 - I. low multiple
 - II. high multiple and protection mechanisms

Entry



x5 EBITDA*

x10 EBITDA*

+ Full downside protection and corporate rights

Exit

35% IRR, 3x cash multiple

** example*

Investment approach and key success factors

Clear exit strategy

Exit types

- Trade sale
- Secondary buyout
- Sale to other shareholders/management
- IPO
- Break-up
- Share redemption



To consider at the time of entry

- **Clear exit path** should be foreseen at the **time of entry**
- **Partner** should be **focused on exit** and not to prevent it
- **Exit obligations** may be in place to guarantee exit for the Fund in worst case scenario
- **IPO** should **not** be **the base case**: partial exit, continuing risk, lock-up period
- The **exit** should be identified **in the investment documents** in terms of timing, profit-sharing, liability to exit

Investment approach and key success factors

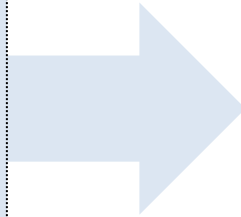
Clear exit strategy: trade buyers exit scorecard example

Financial Fit		Strategic Fit	
1. Revenue	2. Net Debt/ EBITDA	1. Product fit	
<ul style="list-style-type: none"> ● > 1 bln USD ◐ 500 mln to 1 bln USD ◑ 250 mln to 500 mln USD ◒ 100 mln to 250 mln USD ○ < 100 mln USD 	<ul style="list-style-type: none"> ● < 0x ◐ 0x to 1x ◑ 1x to 3x ◒ 3x to 5x ○ > 5x 	<p>1.1. Companies with services portfolio complementary to ABC which aim to:</p> <ul style="list-style-type: none"> • enter ABC segment; • complement offerings for the current clients. <p>1.2. Companies already present in ABC segment (<50%), which aim to:</p> <ul style="list-style-type: none"> • strengthen ABC segment. <p>1.3. Companies which aim to:</p> <ul style="list-style-type: none"> • realize cost synergies; • build market share. 	
Large firms are more likely to acquire ABC and leverage its capabilities	Only companies with a low Net Debt/EBITDA ratio will have willingness and ability to acquire	2. Geographical fit	
3. Organic revenue growth	4. EBITDA	2.1. Companies which aim to enter Russian/ emerging markets	
<ul style="list-style-type: none"> ● < 5% ◐ 5% to 10% ◑ 10% to 15% ◒ 15% to 20% ○ > 20% 	<ul style="list-style-type: none"> ● > 200 mln USD ◐ 100 mln to 200 mln USD ◑ 75 mln to 100 mln USD ◒ 50mln to 75 mln USD ○ < 50 mln USD 	3. Acquisitions growth fit	
Companies with limited organic growth opportunities are more focused on acquisitions	ABC is more appealing to companies with a positive EBITDA and aiming to maintain high margins	<p>3.1. Companies with expressed intention in acquisitions</p> <p>3.2. Companies which have successful past track record of doing acquisitions</p>	
		4. Client fit	
		<p>4.1. Companies which want to access new clients of ABC</p> <p>4.2. Companies which want to provide support to existing multinational clients</p>	

Investment approach and key success factors

Proper deal structuring

Proper deal structuring is key to **align parties** and establish **downside protection**



The following deal **structuring elements** could be used:

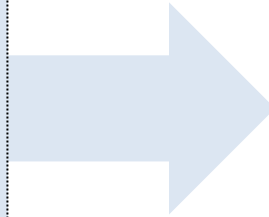
- Put and call options, redemption rights
- Deferral consideration and earn-outs
- Covenants
- Drag along and Tag along
- Share ratchets
- Preferred shares and liquidation preference
- Right of first refusal
- Board representation and approval rights
- ...



Investment approach and key success factors

Proactive monitoring

Proactive monitoring of portfolio companies is important



- Building **100 days plan** and clear **3-5 years roadmap**
- Building proper **corporate governance**
- Fund active involvement on the **Board of Directors**
- Monthly **reporting** from portfolio companies
- Monthly **review** of budgeted and actual numbers
- Early **warning of issues**
- Frequent **interaction with management**
- Strengthening CFO/ financial controller



Investment approach and key success factors

Industry growth and deep market expertise

Examples of attractive sectors in the current environment

Sector	Investment rationale
1 Undeveloped industries/ sectors with high growth potential <ul style="list-style-type: none">• Internet tech companies• E-commerce• Medical Services• Fast Food• Logistics	<ul style="list-style-type: none">• High Internet growth rates• Service infrastructure is still underdeveloped• Limited modern private medical services
2 Traditional sectors <ul style="list-style-type: none">• Food retail• FMCG• Pharmaceutical industry• TMT	<ul style="list-style-type: none">• Import substitution• M&A opportunities, important to find right platform for consolidation• Regional growth potential• New formats/ products development• Room for improvement (margins, working capital)

Investment approach and key success factors

Industry growth and deep market expertise

Two investment strategies

“Bet-and-win”

- Industry with high growth potential
- Investment in market leader
- Investment in strong management team
- “Fair entry price”
- Minority investment

Undeveloped industries/ sectors with high growth potential

“Buy-and-build”

- Good industry knowledge
- Building market leadership through M&A
- Strengthen management team
- “Discount entry price”
- Majority stake buy-out

Traditional sectors

Common principles

- The market in which the Company operates should be at least \$100 million
- The demand for the Company products or services should be justified by macro trends
- The business model should be proven/ sustainable/ scalable

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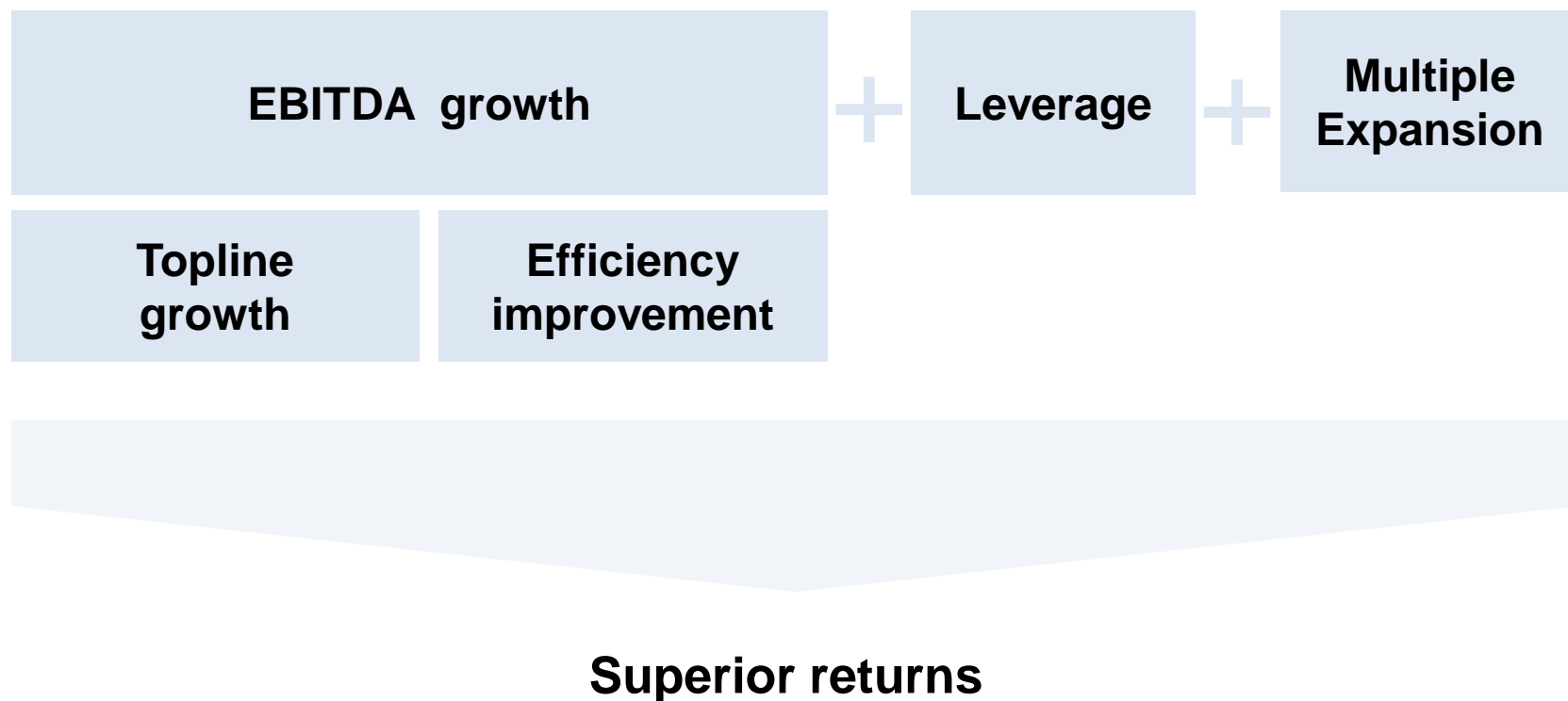
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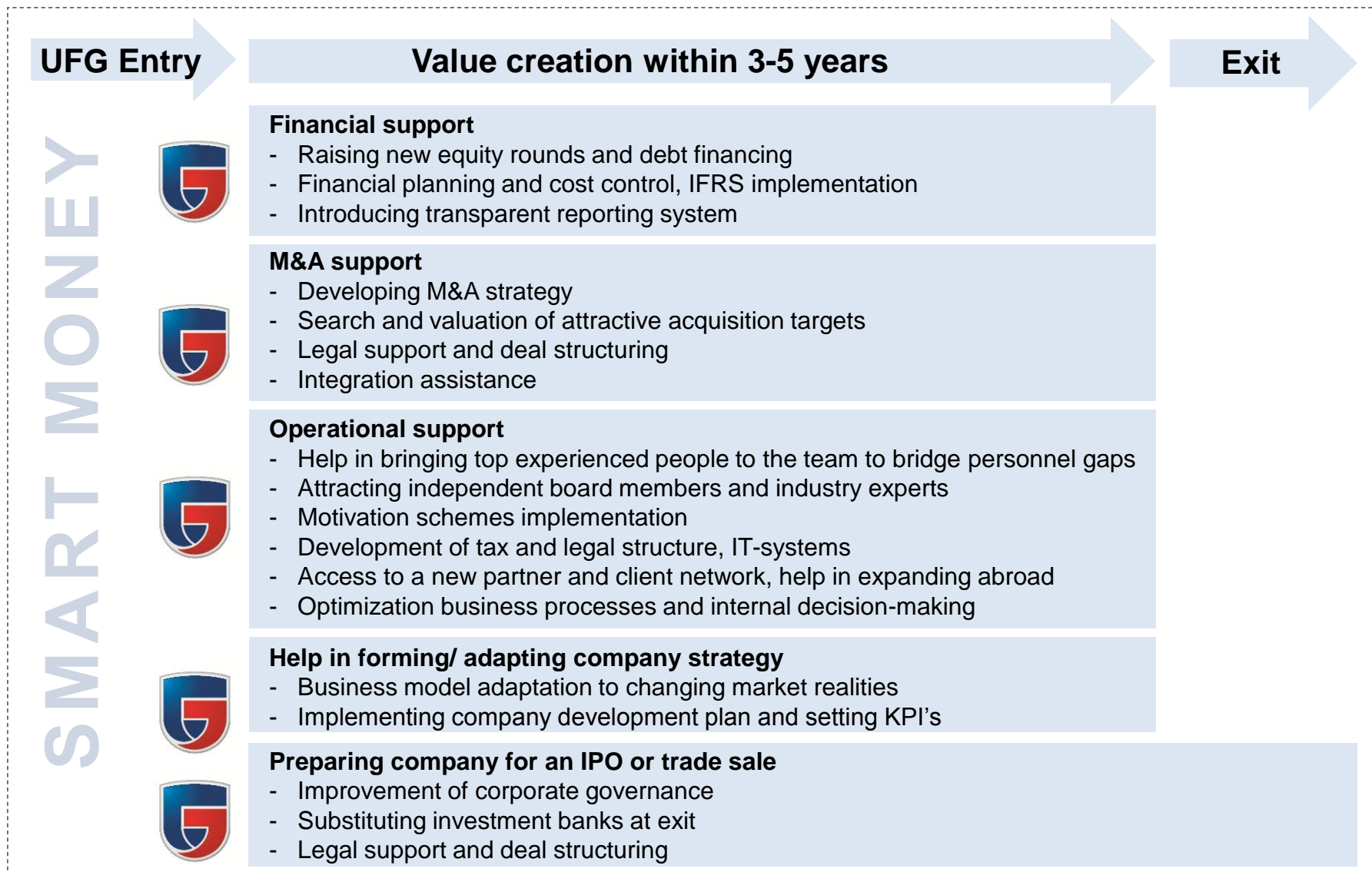
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Thank you!

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