UFG Private Equity

Private Equity funds as later stage investors and exit route for VC funds

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Presentation outline

UFG Private Equity

1	UFG Private Equity
2	PE and VC funds in funding lifecycle, investment approaches and potential for cooperation
3	UFG Private Equity investment principles

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UFG Private Equity at a glance

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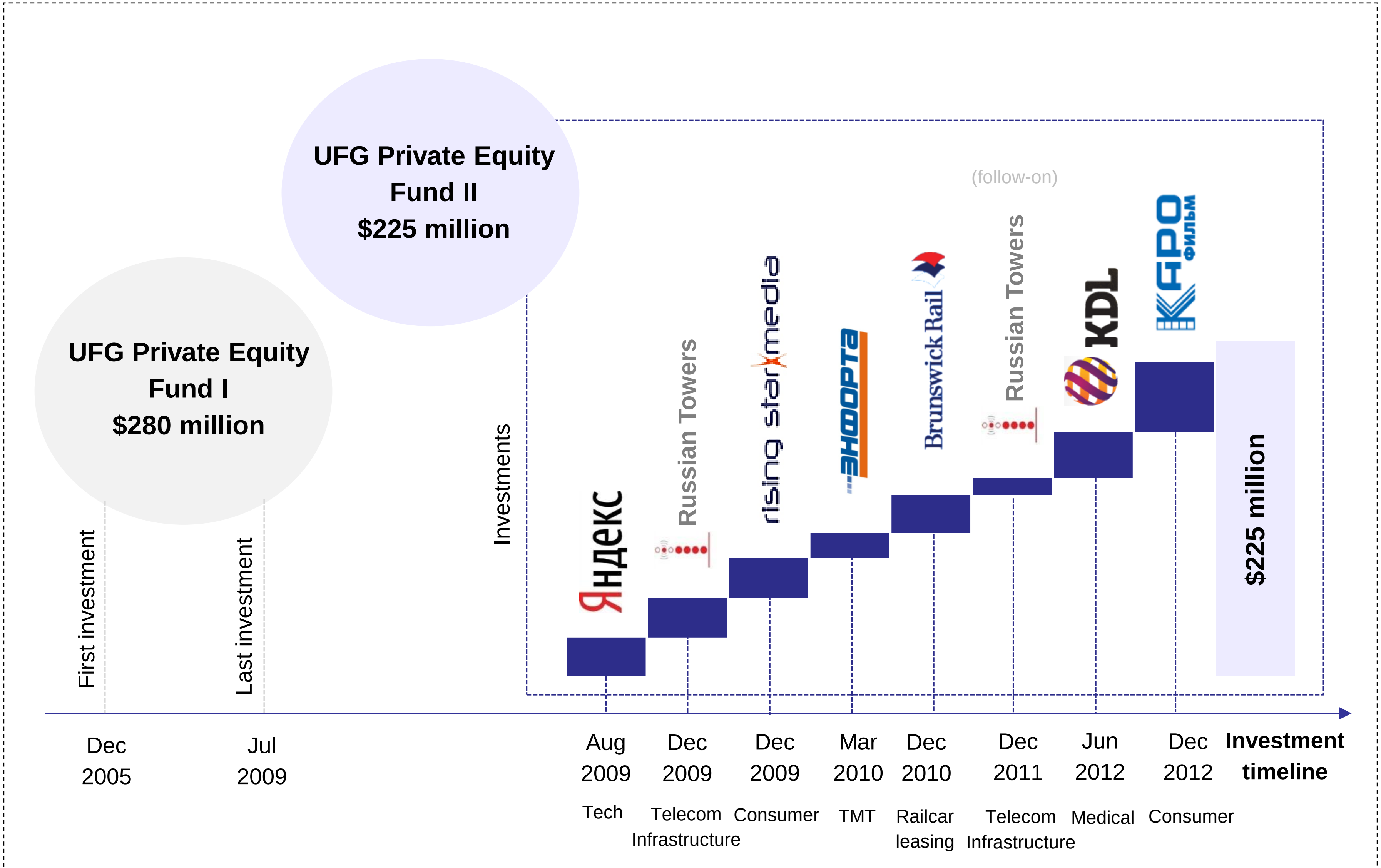
- Over **$500 million of cumulative commitments** in two funds
- **International investor base** including EBRD and a broad mix of European, Middle East and US institutional investors, funds and family offices
- Committed and experienced team of **15 investment professionals**
- Total **19 investments** across 2 funds in Internet, FMCG, TMT, Food and Beverages, Healthcare, Consumer and Business services, Financial Services, Specialty Retail, Travel, Metals and Mining
- **7** projects were **co-invested** with other funds
- **8 exits** performed with capability to create value
- Part of **UFG Asset Management** group with $1.6 billion under management in four investment areas: Private Equity, Hedge Funds, Real Estate, Wealth Management

UFG Private Equity has extensive track record of investments



UFG Private Equity brings value-add across the investment cycle

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Fund II examples

Financial support - Raising new equity rounds and debt financing - Financial planning and cost control, IFRS implementation - Introducing transparent reporting system	Russian Towers, KDL
M&A support - Developing M&A strategy - Search and valuation of attractive acquisition targets - Legal support and deal structuring - Integration assistance	KDL, КАРО фильм
Operational support - Help in bringing top experienced people to the team to bridge personnel gaps - Attracting independent board members and industry experts - Motivation schemes implementation - Development of tax and legal structure, IT-systems - Access to a new partner and client network, help in expanding abroad - Optimization business processes and internal decision-making	Russian Towers, KDL, Энфорта
Help in forming/ adapting company strategy - Business model adaptation to changing market realities - Implementing company development plan and setting KPI’s	KDL, Яндекс, Brunswick Rail
Preparing company for an IPO or trade sale - Improvement of corporate governance - Substituting investment banks at exit - Legal support and deal structuring	rising star media, Яндекс, Энфорта

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Company funding lifecycle…

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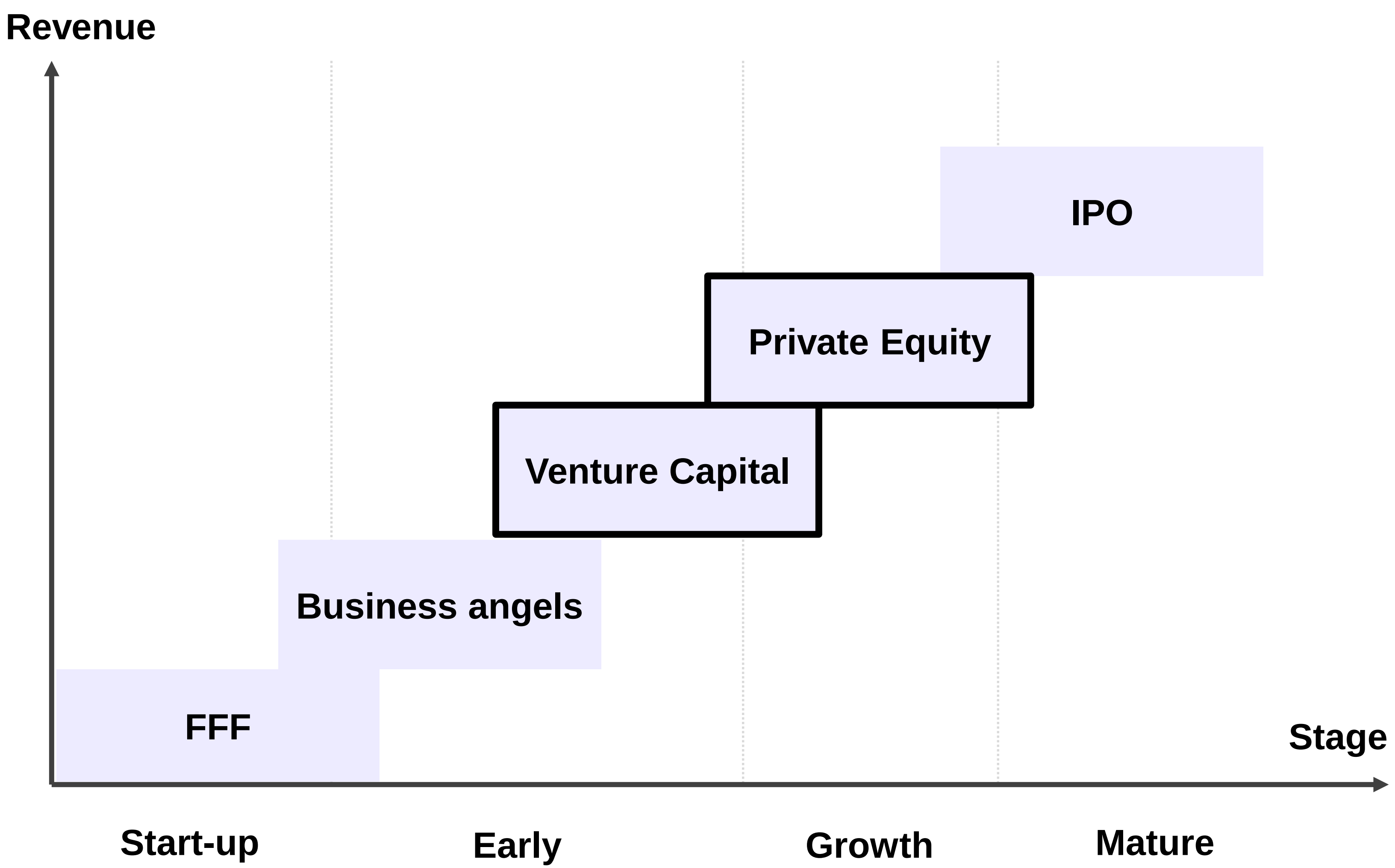
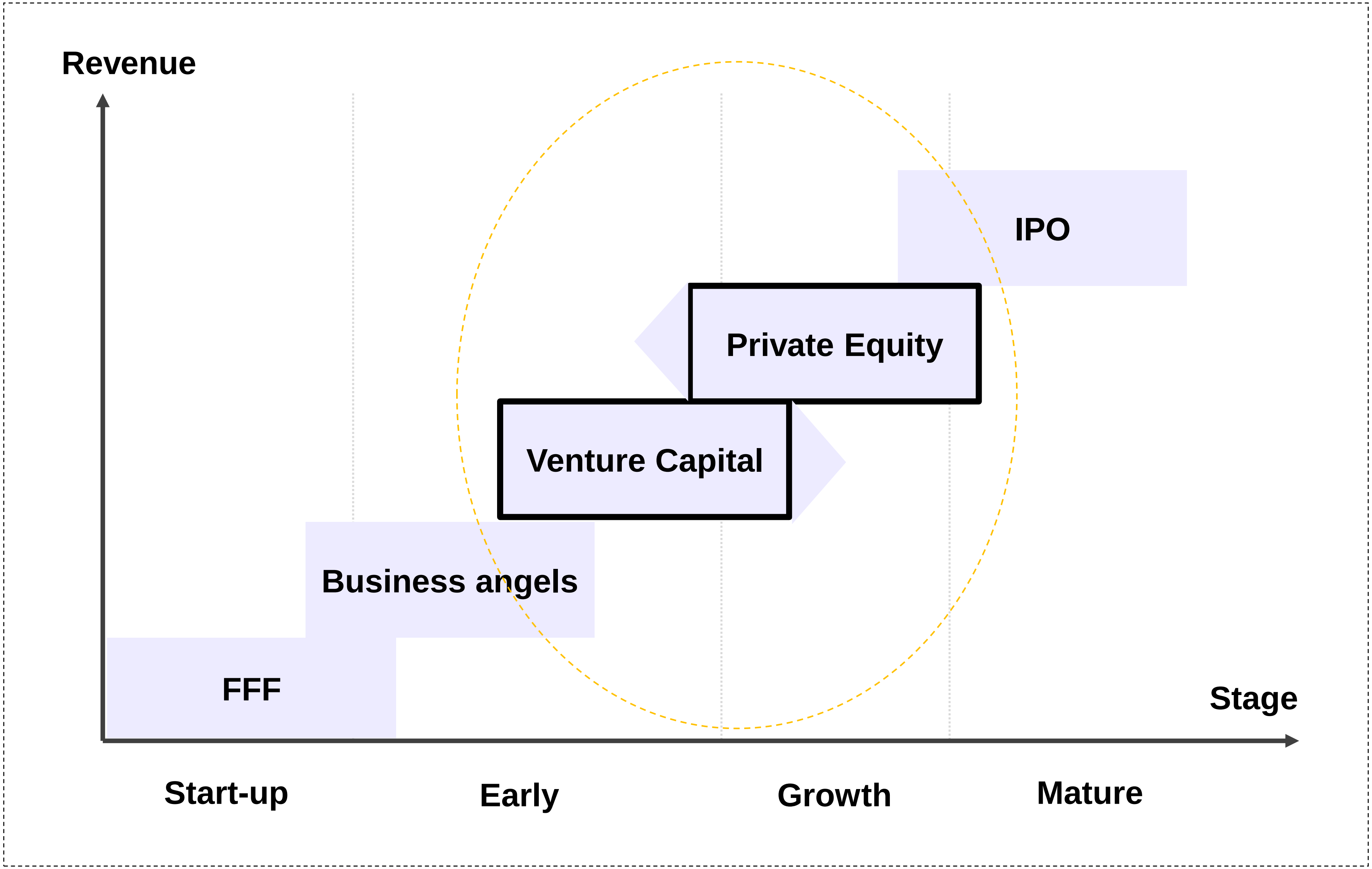


…with Venture Capital and Private Equity business models converging



There are quite some differences in VC and PE investment approaches in Russia

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	Private Equity	Venture Capital
Industry sectors focus	Any sectors	Internet, technology, bio-tech, clean-tech
Stake acquired	Minority or majority	Typically minority, but may be majority with co-investors
Typical investment size	\$10 - \$100 mln	\$1 - \$10 mln
Financing used	Equity, equity and debt	Equity
Stage	Mature	Early stage, sometimes pre-revenue
Risk and return	The number of investments is smaller and the investment size is larger. Therefore, PE funds invest in companies where the chance of failing in 3-5 years is close to 0%.	The risk profile of VC funds accepts that many of the companies they invest in will fail, but at least one will generate huge returns
Portfolio companies involvement	High involvement because of less investments and more focus on each deal	High involvement because of early-stage nature of the business

High potential for cooperation between PE and VC funds exist

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1 **Co-investment**	**Potential 'investor smart money' synergies**: • VC fund brings technology expertise and access to VC funds partner companies • PE fund brings access to new offline business partners, helps in attracting debt financing, builds corporate governance
2 **Private Equity funds as later stage investors for VC backed companies**	**Could be of mutual interest for both parties**: • PE fund invests in a business which is already being "cleaned up'' by VC fund with internal processes already prepared for a new investor • VC fund attracts larger amounts of capital for scaling operations or new markets entry
3 **Private Equity funds as an exit route for VC funds**	**Is rarely used in Russia but is worth to consider**: • Russian VC funds being emerged not long ago have a need to prove their exits track record • PE funds are able to buy-out VC funds stake with a potential for organic growth or market consolidation

UFG Private Equity investment principles

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Investment approach and key success factors

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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

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

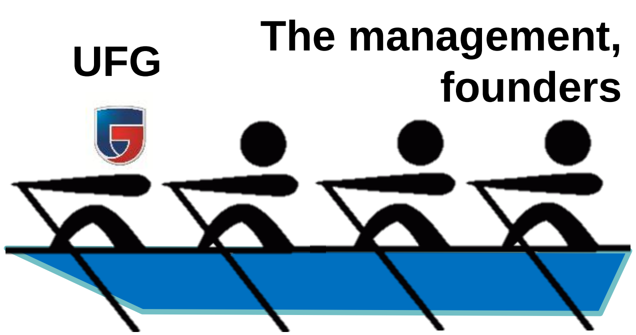
Goal alignment

- Important to **chose 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*

Clear exit strategy

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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

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Financial Fit

1. Revenue

- > 1 bln USD
- 500 mln to 1 bln USD
- 250 mln to 500 mln USD
- 100 mln to 250 mln USD
- < 100 mln USD

Large firms are more likely to acquire *ABC* and leverage its capabilities

2. Net Debt/ EBITDA

- < 0x
- 0x to 1x
- 1x to 3x
- 3x to 5x
- > 5x

Only companies with a low Net Debt/EBITDA ratio will have willingness and ability to acquire

3. Organic revenue growth

- < 5%
- 5% to 10%
- 10% to 15%
- 15% to 20%
- > 20%

Companies with limited organic growth opportunities are more focused on acquisitions

4. EBITDA

- > 200 mln USD
- 100 mln to 200 mln USD
- 75 mln to 100 mln USD
- 50mln to 75 mln USD
- < 50 mln USD

ABC is more appealing to companies with a positive EBITDA and aiming to maintain high margins

Strategic Fit

1. Product fit

1.1. Companies with services portfolio complementary to ABC which aim to:
- **enter *ABC* segment**;
- complement offerings for the current clients.

1.2. Companies already present in ABC segment (<50%), which aim to:
- **strengthen *ABC* segment**.

1.3. Companies which aim to:
- realize **cost synergies**;
- build **market share**.

2. Geographical fit

2.1. Companies which **aim to enter Russian/ emerging** markets

3. Acquisitions growth fit

3.1. Companies with **expressed intention** in acquisitions

3.2. Companies which have **successful past track record** of doing acquisitions

4. Client fit

4.1. Companies which want to **access new clients** of *ABC*

4.2. Companies which want to provide support to existing multinational clients

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
- …

Proactive monitoring

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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

Industry growth and deep market expertise

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Examples of attractive sectors in the current environment

Sector	Investment rationale
1 Undeveloped industries/ sectors with high growth potential • Internet tech companies • E-commerce • Medical Services • Fast Food • Logistics	• High Internet growth rates • Service infrastructure is still underdeveloped • Limited modern private medical services
2 Traditional sectors • Food retail • FMCG • Pharmaceutical industry • TMT	• 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

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Two investment strategies

"Bet-and-win"	**"Buy-and-build"**
• Industry with high growth potential • Investment in market leader • Investment in strong management team • "Fair entry price" • Minority investment	• Good industry knowledge • Building market leadership through M&A • Strengthen management team • "Discount entry price" • Majority stake buy-out
Undeveloped industries/ sectors with high growth potential	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

Thank you!

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