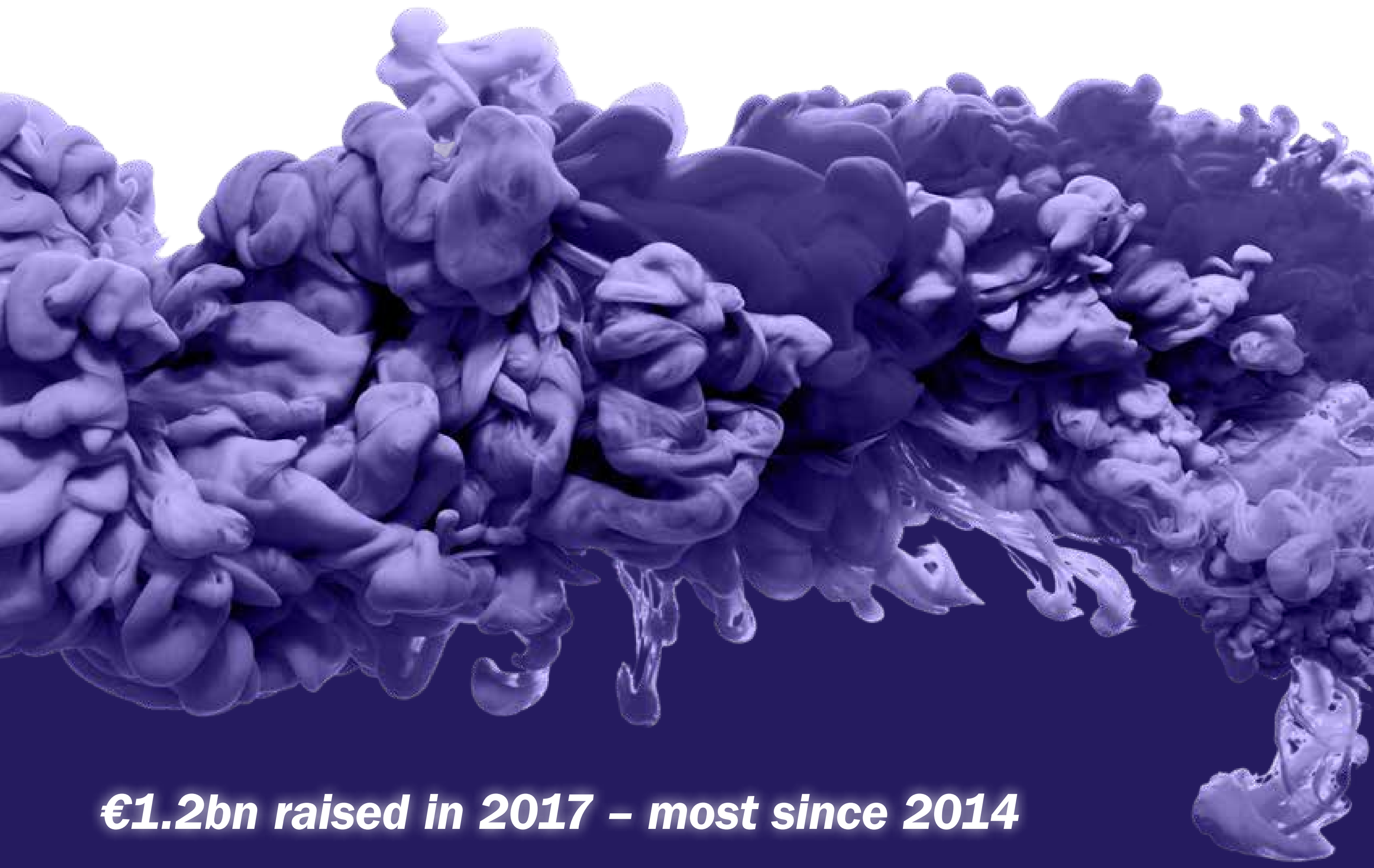
unquote

CEE FUNDRAISING REPORT 2017



€1.2bn raised in 2017 – most since 2014

28 buyouts worth aggregate €4bn completed

SBOs a fifth of exits in 2015-2017 period

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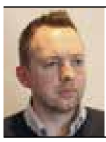

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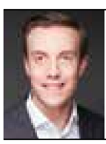

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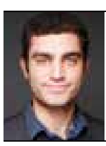

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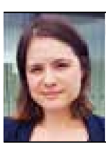

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DATA METHODOLOGY

The data used in this report is primarily drawn from *unquote" data*, the longest running European private equity and venture capital database available. The database holds information dating back to the late 1980s and covers more than 40,000 private-equity-backed deals, as well as almost 4,000 funds that have collectively raised in excess of €2tn.

Over the last 25-plus years, the *unquote" data* team of journalists and specialist researchers has collected information on 3,200 international LPs that have committed capital to European private equity and venture funds. Although there are some exceptions, *unquote" data* coverage is as follows:

- Venture/private equity investments of all sizes and types, as long as there is backing from institutionally funded investors;
- Funds covered are generally raised from institutional investors, though there are examples of state- or European-sponsored vehicles held in the database too. Retail funds are generally not covered;
- Investments on the database all involve Europe-headquartered companies, irrespective of where the investing fund is domiciled or managed from;
- Institutional coverage is global, where LPs have an appetite for investment in European-managed vehicles, though there is a strong bias towards those LPs with a decision-making capacity in Europe.

Direct contact between our editors/researchers and private equity deal-doers, advisers, fundraisers and institutional investors is at the heart of the division's research methodology. The strong relationships that this direct contact has enabled us to build has ensured a high-quality flow of qualitative information in our database and published products.

Statistical overview

2017 continues a robust spell of fundraising for the growing CEE market. Chris Papadopoullos reports

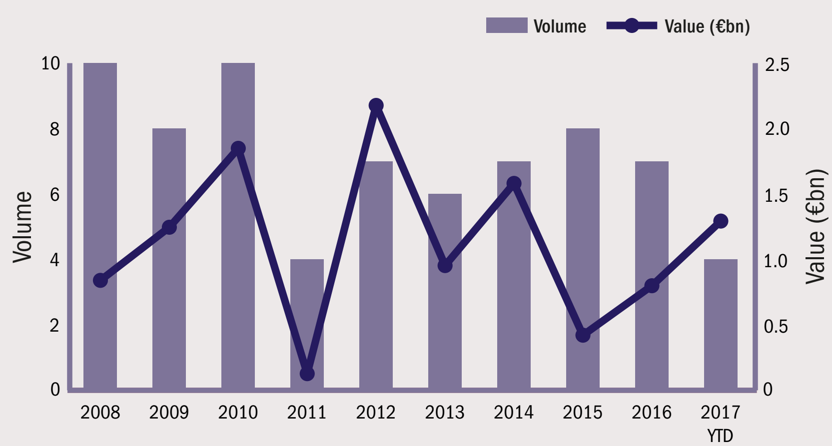
The year has been a mixed one for fundraising in the CEE region, with the number of funds lagging, but the amount raised climbing sharply. Only four funds held final closes, the lowest over the past 10 years. Yet collectively they raised €1.2bn – the most since 2014 – which resulted in an average fund size of €323m. This is the largest average fund size for the past decade. Indeed, the value of funds holding final closes this year surpassed the same figure for 2015 and 2016 combined.

Abris's €500m Mid Market III, announced at the start of 2016, was the largest fund that closed this year. It was closely followed by Enterprise Investor's consumer-focused Polish Enterprise VIII on €498m, which closed above its €450m target after around three months on the road.

Overall, the past several years have been a period of successful fundraising for local GPs and can be expected to support regional dealflow in the future.

Funds in the region will typically count the European Bank for Reconstruction and Development and the European Investment Fund among their LPs. Many funds, including relatively small venture funds, have attracted capital from some of the world's largest private equity investors, such as the giant US public sector pension funds.

CEE private equity fund final closes



Source: *unquote" data*

Room for more GPs

Looking at the past five years, the joint-busiest buyout dealmaker in CEE has been Polish GP Enterprise Investors. This is not surprising, given it was Poland's first private equity operation after the country's transition to a market economy – it was launched in 1990 to manage $260m of investment aid from the US. The GP has completed seven deals worth €281m since 2013. Mid Europa Partners, the biggest spender in the region, has completed seven deals worth €4.4bn over the same time.

The economic success of Poland, including the fact it weathered the storm of 2008-2009

The economic success of Poland, including the fact it weathered the storm of 2008-2009 relatively well compared with the rest of Europe, has transformed it into the private equity stalwart of the CEE region

relatively well compared with the rest of Europe, has transformed it into the private equity stalwart of the CEE region. There have been 125 deals worth €7.91bn in Poland in the past five years, 21% of total CEE volume and 35% of value. That said, the business population suggests there is room in the market for more local players. The number of companies in Poland with 50-250 employees is around 15,000, according to the country's statistics office – about half the number in the UK – but its private equity industry is about one-twentieth of the size in terms of deal numbers and value.

GPs in the region have tended to dominate the local market, though there is some evidence that international GPs are starting to chip away at their position. In the 2015-2017 period, local GPs completed 69.9% of CEE buyouts, a drop on the 75.2% they completed in 2012-2014. Non-CEE GPs investing in the region are almost exclusively from western Europe and the US.

Stable buyout flow

Dealflow in the region has slowed dramatically over the past five years, but this is not due to a weak investment environment. According to *unquote" data*, the drop off in dealflow is due to a fall in expansion and early-stage deals, which have fallen from 135 in 2013 to 33 in 2016 – only 26 have been completed so far this year. However, the average investment size of these deals has increased considerably. For 2017, the average size of a CEE expansion/early-stage investment was €21.4m, a figure which has climbed every year since 2013 when it was just €6.2m.

In contrast to expansion and early-stage deals, buyouts have been remarkably stable. With 28 deals completed so far in 2017, the year is on course to finish around the average of the past four years (32 deals).

While many CEE countries have strong industrial sectors, the most popular buyout sector is consumer goods and services. Industrials and technology are also popular – the slowdown in expansions and early-stage deals was due almost entirely to tech deals. Technology is the most popular sector for early-stage and expansion investors, but buyout

Funds holding final close 2017

Fund	Total Raised (€m)
Abris CEE Mid Market Fund III	500
Polish Enterprise VIII	498
Taxim Capital Partners I	200
Arx CEE IV	95

Source: *unquote" data*

Funds holding final close 2016

Fund	Total Raised (€m)
Abraaj Turkey Fund	401
TRPE Turkey Innovation and Growth Fund	200
Runa Capital II	99
Genesis Private Equity Fund III	82
Karma Ventures I	40
Launchub Fund 2	18

Source: *unquote" data*

Total capital raised by GP since 2007

GP	Number of funds	Total Raised (€m)
Baring Vostok Private Equity	2	2,255
Abraaj Capital	2	2,230
Actera	2	1,456
Abris Capital Partners	3	1,250
Enterprise Investors	3	1,200
Mid Europa Partners	1	1,000
Elbrus Capital Partners	2	742
Troika Dialog	1	423
Mediterra Capital Management	1	300
3TS Capital Partners	3	285
Troika Capital Partners	1	254
Baltcap Management	4	250
Arx Equity Partners	2	225
Nexus Private Equity Partners	3	182
Runa Capital	2	172
Avallon MBO	2	157
Resource Partners	1	150
Genesis Capital	2	140
Pera Capital Partners	1	120
Earlybird Venture Capital	1	119
MCI Management	2	104
European Investment Fund	2	100
Dragon Capital	1	75
Krokus Private Equity	1	75
Draper Fisher Jurvetson	1	69
Almaz Capital	1	68
Credo Ventures	2	60
Karma Ventures	1	60
Aurora Resurgence	1	56
Tar Heel Capital	1	50
BPM Capital	1	50
Prosperus Invest	1	45
Diffusion Capital Partners	1	35
Launch Hub	2	27
Primus Capital Partners	1	24
Practica Capital	2	22
Zalas Gaismas Investicijas (ZGI Capital)	1	11
Satus Venture	1	5

Source: *unquote" data*

deals in the sector are sparse – tech has accounted for 14% of buyouts and 5% of deal value.

For buyouts, the dominant sectors are consumer goods and services, which have accounted for 54% of deals and 70% of deal value during 2017. Industrials is the only other large buyout sector, making up 21% of transactions this year.

Rising secondary buyouts

GPs operating in CEE continue to report a healthy exit market, although the number of exits has declined over the past five years. This is due to the fact that a large back-log of investments were offloaded between 2011-2013, when asset prices recovered – a trend seen across Europe.

A notable feature of the exit numbers is the growing strength of secondary buyouts. This is due to many reasons such as greater fundraising across CEE, the rest of Europe and north America, enabling GPs to better compete with potential trade buyers. Another factor is greater specialisation among GPs. Secondary buyouts made up just 7% of exits between 2012-2014, rising to 20% in 2015-2017.

Indicative of this trend, this year's biggest deal was a secondary buyout, with CEE specialist Mid Europa selling Polish supermarket group Zabka Polska to CVC in a transaction that valued the company at €1bn. It was also the largest ever private equity exit in the region.

The increasing number of pass-the-parcel deals is also seen in deal sourcing data. In the years 2015-2017, 51% of assets bought were family-owned or private businesses, down from 60% in the years 2012-2014. In contrast, assets bought from other GPs increased to 18% of total deals from 12%.

Trade sales continue to be the most popular exit route, accounting for 42% of exits in 2017. ■

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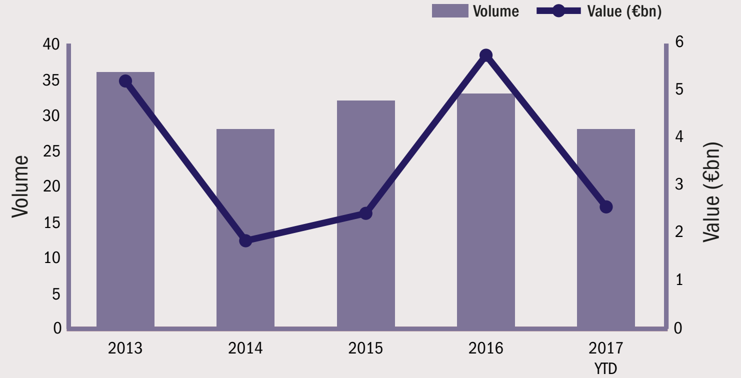
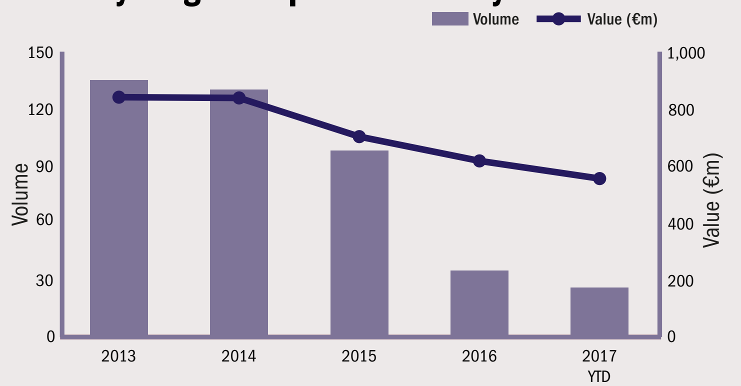
CEE buyout activity



Source: *unquote" data*

CEE early-stage & expansion activity



Source: *unquote" data*

Strength to strength

Nicole Tovstiga talks to industry players to examine what is driving the buoyant CEE fundraising environment, and what challenges have arisen in the region

Private equity fundraising in central and eastern Europe (CEE) enjoyed significant growth in 2017. Not only did private equity houses Enterprise Investors and Abris Capital Partners close two funds around the €500m mark, but deal activity also took off.

CEE fundraising saw a 53% year-on-year increase, reaching €799m in 2016, and as we end 2017, the numbers are showing a 62% increase this year compared with 2016.

The fruitful fundraising environment is largely down to positive economic growth and relative political stability in the region. "Investment opportunities can be found in economies where consumption is growing due to improving wages," says Anne Fossemalle, director of equity funds at the European Bank for Reconstruction and Development (EBRD).

Poland saw a healthy GDP growth rate of 4% this year and continues to be a driver in the CEE economies.

"For fundraising, it's never been as good as this," says Michal Karwacki, partner at Squire Patton Boggs. "It's a great time to gather funds by Polish private equity houses in 2017, as well as incorporate new private equity houses. Let's hope that trend will remain in 2018."

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>
> *Michal Karwacki, Squire Patton Boggs*

It took Enterprise Investors only three months to raise its consumer-focused vehicle, Polish Enterprise VIII, having had an attractive track record with two profitable exits that offered 4-5x returns on investment.

But there are other growth stories emerging too, with Romania considered a runner-up along with the Czech Republic and Hungary. Says Karwacki: "The CEE region, including Romania, is offering higher returns than from companies that funds are targeting in western Europe. This is mainly due to the growth rate of the region, making it attractive to investors."

While there is capital to be raised and a high level of deal activity, fundraising is also the region's key challenge. Investors agree that opportunities and risks must be balanced to make a strategic investment decision.

Diversification of investor base

Funding from non-CEE European investors strengthened in 2016 and tripled to €363m compared with the prior year, accounting for 58% of the total capital raised. Meanwhile, funding from investors outside Europe was driven mainly by the US and grew ninefold, to €133m in absolute terms, and accounted for 21% of total CEE fundraising.

Despite the positive aspects of the CEE economies, there is still a lack of international investors, EBRD's Fossemalle tells *unquote"*. EBRD has historically been the largest institutional investor in the region and is typically one of the first ports of call for fundraising investors. "The CEE region is perceived to be riskier than it is," Fossemalle says.

The challenge remains to lure new international investors, says Bill Watson, managing partner at

Value 4 Capital, who is currently fundraising for the Poland Plus fund, which has a hard-cap of €150m.

This year, funds in Poland have received backing from European investors, along with US and EU pension funds, as well as private money from high-net-worth-individuals.

On a regional level, Polish investors are interested in private equity, and fundraising is benefiting from a market liquidity that was not present five years ago.

"About three years ago, we started seeing local banks more eager to finance up to 50% of the deal value," says Karwacki. "Nowadays, they are even willing to put forward more than that."

In Poland, the main banks typically involved in deals are ING Bank, Bank Zachodni and mBank, with few, if any, direct lenders.

The challenge of smaller funds

When it comes to deal-making, the year ahead looks promising for the region. However, private equity firms must invest with care, as most funds raised are not huge and there is a limited number of attractive targets in which to invest, says Karwacki.

While it is advantageous for private equity to invest in large-cap deals, there are significantly more bidders in the CEE market than in western Europe. In the mid-cap space, there are good companies on the exit side, which are likely to be profitable, but, again, there is a limited number on the market.

"Currently, there is no significant threat in funding failure. However, the question is whether such big funds will be invested wisely. Five years ago, Advent raised a €1bn fund for the CEE region, which ended up over-invested," Karwacki tells *unquote"*.

Since then, investment strategies have changed,

"Once we see more exits and funds establish a track record in the region, capital from fundraising will be more free-flowing. It's a cycle"

Anne Fossemalle, European Bank for Reconstruction and Development

as investors focused on reaping opportunities in the lower market segment. Consequently, smaller funds can more nimbly invest in the lower end of the market, but it prevents larger investment houses – restricted by minimum ticket sizes – from deploying capital into this growing segment.

"An institution will be looking to invest so that it is not more than about 10% of the fund," says Watson. "In a €150m fund that is only a €10-15m ticket – much smaller than today's bite size for these investors. Smaller funds are often just not suitable for current institutional investment programmes."

Getting the fund size right is a key objective for private equity firms investing in the CEE region. The process of starting funding is causing delays for some, which is impacting exits from portfolio companies. But just because the process takes longer doesn't mean the investment is a failure, Karwacki adds.

At Value 4 Capital, Watson says there are multiple challenges in raising a fund in the range of €100-200m.

"The challenge in Poland for larger funds over longer periods is deploying capital at a steady pace," says Watson. A gap in fundraising post-crisis meant investors struggled to raise money. But he doesn't see a halt in demand. "There's capital, not just talk," he says.

“About three years ago, we started seeing local banks more eager to finance up to 50% of the deal value. Nowadays, they are even willing to put forward more than that”

Michal Karwacki, Squire Patton Boggs

When it comes to investing in CEE assets, a handful of large-cap deals fall in the orbit of pan-European investors who see a diversification element in the region. Meanwhile, the trend among smaller private equity firms is to focus on regional geographies. In addition, the venture capital seed stage is likely to be more active, according to Fossemalle at EBRD.

“Once we see more exits and funds establish a track record in the region, capital from fundraising will be more free-flowing. It’s a cycle,” she says.

2018 and beyond

Although the region’s larger fund managers have closed off fundraising in the last 18 months, a number of GPs are still on the fundraising trail. Value4Capital’s €150m V4C Poland Plus fund should hold a close in 2018, as should Resource Partners’ €200m Resource Eastern European Equity Partners II (REEEP II).

CEE-focused private equity group MCI Capital’s first debt vehicle, MCI CreditVentures 2.0 launched at the beginning of 2017 with an assets-under-management target of $500m. Structured as an evergreen vehicle, it provides mezzanine financing, venture debt, high-yield bonds and investment fund bonds, as well as senior debt and bills of exchange. Innova Capital is also set to hold a first close for its sixth buyout fund, so far attracting around €200m as of October 2017.

In terms of deals, Abris Capital Partners’ Romanian courier company Urgent Cargus is up for sale. With 600 employees and 2,000 couriers Urgent Cargus is Romania’s second largest courier company. The sale of a 64% stake in Moldindconbank, Moldova’s second largest lender, is expected to kick off next year, with regional private equity funds looking at the target, according to *unquote”* sister publication *Mergermarket*. The news service also reported Octa Light Bulgaria, a Bulgarian LED lighting manufacturer, is in talks to raise between €10-30m from a private equity fund in return for up to 49% of the company, according to a company executive.

Private equity CEE deal-doers contacted by *unquote”* are generally optimistic about the prospects for 2018. The region’s high-profile exits of the past two years have helped to allay investors’ fears surrounding the perceived long hold periods and exit volumes in the region.

Maturing CEE funds still hold a healthy number of assets that will be exited in the near term. In addition, an increasing number of deal opportunities could arise as a result of succession solutions for post-communist owners seeking to exit businesses that were established in the 1990s.■

Advisory league tables

These tables list the most active corporate finance houses and legal firms in CEE since 2012, according to *unquote" data*

Top 10 most active corporate finance advisers 2012-YTD

Adviser	Number of deals advised upon	Value of deals advised upon	Average value of deals advised upon
Deloitte	18	€440.9m	€24.5m
EY - Transaction Advisory Services	10	€206.8m	€20.7m
Rothschild	6	€550.1m	€91.7m
KPMG	5	€178m	€35.6m
JP Morgan	4	€1,777m	€444.3m
UniCredit Group	3	€112.5m	€37.5m
Goldman Sachs London	3	€3,726.7m	€1,242.2m
Citi Capital Advisors	3	€1,173m	€391m
DC Advisory Partners	3	€619.4m	€206.5m
CIC Finance	2	€105m	€52.5m

Top 10 most active legal advisers 2012-YTD

Adviser	Number of deals advised upon	Value of deals advised upon	Average value of deals advised upon
Weil Gotshal & Manges	20	€1,269.9m	€63.5m
CMS	17	€2,253.8m	€132.6m
Clifford Chance	15	€4,349.9m	€290m
White & Case	13	€2,796.7m	€215.1m
Allen & Overy	11	€3,779.4m	€343.6m
Beata Gessel & Wspolnicy	9	€263.2m	€29.2m
Dentons	8	€384m	€48m
Kinstellar	6	€302m	€50.3m
Squire Sanders	5	€139.8m	€28m
Sorainen and Partners	4	€32m	€8m

Source: *unquote" data*

To submit deals your firm has worked on, please email gareth.morgan@acuris.com.