

CEE: emerged, but still enticing

Returns in Central and Eastern Europe will be less attractive than in the past few years, although the region will continue to offer a superior risk/reward profile for investors – this was the message sent at the unquote” CEE Private Equity Congress in London on 27 May. Kimberly Romaine reports

Many spectators have pointed fingers at the CEE region of late, citing an influx of newcomers as a cause for concern as increased competition drives up prices and forces downward pressure on returns.

This negativity has been exaggerated – new teams have sprung up, but the former triumvirate of three large buyout houses was never sustainable, said Craig Butcher of Mid Europa Partners. He pointed out that in their space the number of players that can do large deals now stands at around half a dozen – hardly a number that will seriously impact lucrative deal doing. Years ago, before the newcomers arrived, a deal would spring up only every few months.

Now the pipeline is more robust, meaning there is room to accommodate new players. To boot, there are more exit prospects nowadays, according to Enterprise Investors’ Robert Manz, who pointed out that GPs can do a lot more with portfolio companies today than they could five years ago and therefore higher entry prices are justified.

The real concern is escalating fund sizes – an issue that raises eyebrows in Western Europe, too. Here the EIF’s Uli Grabenwarter admitted that LPs are largely to blame – with so many wanting exposure to the region – and he said he hopes this does not prove problematic in the next six to 12 months.

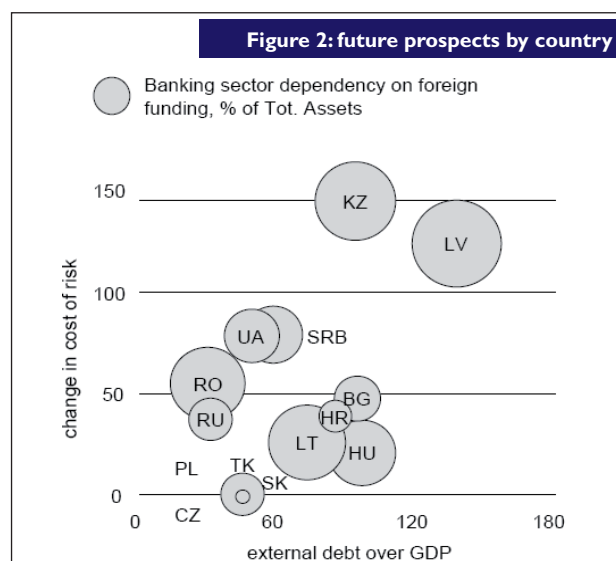
Adveq’s Andre Jaeggi concurred and urged GPs to be more selective in future, expressing that an LP relationship is for years, not just 12 months after committing. Thus as long as LPs flock to GPs producing handsome returns, fund managers will need to manage them effectively.

On a positive note, CEE is relatively insulated from the credit crunch. According to Peter Nachtnebel of UniCredit Group, the future will be bright but not easy: Poland, Russia and the Czech Republic have strong medium-term growth prospects owing to sustainable balance-of-payments situations. Bulgaria, Estonia, Latvia and Romania, however, run the risk of a “hard landing” of economic growth in 2008/09 given their unsustainable balance of payments. Hungary and Turkey have weak(er) near-term growth outlooks, which threatens to spill over into weaker FX and credit performance in 2008 (see Figure 2).

Figure 1: Returns (€) at 31 December 2006

	1 year	3 years	5 years	10 years	Since inception
EBRD portfolio	31.5%	45.5%	18.1%	11.3%	11.1%
EVCA all private equity	36.1%	13%	5.4%	11%	10.8%
FTSE Emerging Markets Eastern Europe	12.2%	39.8%	28.9%	19.9%	N/A

Source: EBRD



Source: UniCredit Group

The second annual unquote™ CEE Private Equity Awards was made possible by the support of the EBRD and was sponsored by Clifford Chance. The awards were hosted by unquote™ Editor-in-Chief Kimberly Romaine and EBRD Senior Banker Henry Potter.

Russia/CIS Deal of the Year

Horizon Capital for Shostka City Milk Plant, accepted by Lenna Koszarny

Horizon initially invested in the hard cheese producer in March 2005. Just two years later it was sold to a French trade buyer, resulting in a triple-digit IRR for the GP. The judges said: “Horizon bought a very local cheese company in Ukraine. It was tough to gain control in the first place, but it persevered and managed it. Finally, Horizon managed to sell Shostka to a trade buyer, making it a great example of a private equity deal in the fast growing CIS consumer space.”



The judging panel consisted of: Uli Grabenwarter, EIF; Roberto Pilotto, PPM Managers; Henry Potter, EBRD; Petr Rojicek, Alpha Associates; Kimberly Romaine, unquote™ (chair).

in most CEE deals; and although they can handle the large ones they will also look at smaller deals too, unlike many London-based banks. They are consistent, effective and reliable.”

Fundraising of the Year

Mid Europa Partners for Mid Europa Fund III LP, accepted by Bill Morrow



The team and its placement agent, Mvision, issued a PPM with a target of €1.25bn on the cover. Three months later a first close was announced and just two months after that the vehicle closed on a staggering €1.5bn hard cap with 63 LPs – the largest buyout fund dedicated to CEE. The judges said: “As CEE’s first billion-euro fund, it created a real buzz in the market. It was one of the breakthrough funds which made many LPs take notice of the region.”



Mezzanine House of the Year

Mezzanine Management Central Europe, accepted by Franz Hörhager

The pioneer of CEE mezzanine managed three successful exits in 2007 and did the bulk of the fundraising for what went on to be a remarkable vehicle. The judges said: “AMC just did so much in 2007. It did a ton of deals and exits, and launched what was ultimately a very successful fundraising for its second vehicle.”

Mid-Market Deal of the Year

Enterprise Investors for Magellan, accepted by Robert Manz

Enterprise acquired a minority stake in the Polish non-banking financial institution in March 2003 and floated the business on the Warsaw exchange in 2007, reaping a multiple of 10x cost. The judges said: “Enterprise Investors did a very good job of gradually gaining control of the business to eventually win 100%. It then had a lot of positive influence on the strategy of the company.”



Law Firm of the Year

Clifford Chance, accepted by Alex Cook

The firm advised on 69 deals in CEE in 2007, serving clients such as 3i, Bridgepoint, Candover, Riverside, Innova and Permira, among others. The judges said: “Clifford Chance are great lawyers who can work internationally, have a very commercial approach and have seen a lot of CEE deal action.”



Large Deal of the Year

Innova Capital for PolCard, accepted by Krzysztof Kulig

Innova used its sector expertise to increase the multiple, margin and revenues of the credit card processor. The GP installed a new CEO, CFO and VP of outsourcing and IT director during the holding period. The judges said: “Innova was very active even before the company was for sale. They were smart in teaming with a strategic, which persuaded banks that a long-term view was Innova’s strategy and ultimately won it the deal. It was truly innovative deal sourcing.”



Bank of the Year

UniCredit Markets & Investment Banking Bank Austria Creditanstalt AG, accepted by Peter Nachtnebel

The judges said: “BACA UniCredit still leads the pack. They play at least some role

