

NORUM'S STORY IN RUSSIAN PE/VC MARKETS

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IIB SEMINAR

RUSSIA AS A MARKET FOR PE

- The need for private equity grows rapidly in Russia, but sources for equity develop slowly, making profitable venture investments attractive
- Number of private equity funds is still limited, investment profiles differ, more syndication than competition
- Russian banking system is still in early phase, giving private equity more opportunities, only 5% of investments financed by bank loans!
- Government understand the importance of PE/VC!

EXIT MARKETS

- **Russian investors** are very active today and are searching profitable transparent companies with good management.
- **Foreign strategic investors** are looking for good opportunities in Russian markets,
 - **trade sales** are possible at good prices.
- Soon time for **IPO's** in Russia.

NORUM'S MISSION

- Norum started with EBRD as a fund manager for Norum I fund in August 1995. EBRD established for Russia 11 funds with 11 selected management companies, of which 3 are still in operation. Management fee is financed directly from EBRD through grants from various governments, i.e. not from the Fund.
- The original Norum mission was to prove that private equity could function as a financial tool in Russia and create a track record of foreign investments. The goal was to invest in privatised companies in Karelia, Murmansk and Arkhangelsk regions and to support the privatisation process taking place at that time in Russia.
- After 1998 economical crises Norum I region was enlarged for North West and West Russia, privatisation was not any more the main mission. The team was moved from the regions to St. Petersburg in 1999. Since then Norum has been functioning as any private fund manager without major restrictions.
- Portfolio consists of investments made during three different Investment Policy periods 1995-1998, 1999-2001 and after 2002 .

NORUM'S TRACK RECORD (1)

Full exits:

➤ Polygran	1.11	(Russian financial investor)
➤ Saw Mill	1.93	(Russian strategic investor)
➤ Retail Indust.	1.68	(Austrian strategic investor)

Multiple to costs:

Partial exits *):

- 7 Companies
 - Two printing companies and a holding structure AEE (Norwegian strategic partner)
 - Italforma, bended glass (Italian strategic partner)
 - Olympia, shop fittings (Russian majority owner)
 - Crafrise, chocolate products (Russian majority owner)
 - Pokrovsky, glass bottle factory (Foreign strategic investor)

*) *Part of the funds' stake has been sold and there are binding agreements for the final exits.*

NORUM'S TRACK RECORD (2)

- Fund size growth: from 1995 - USD 33 million, to 1999 - USD 63 million, and in 2002 - USD 88 million
- Total commitments USD 72.5 million in 24 companies
- Total realised returns (exits, dividends, interest, loan repayments) are USD 32.43 million plus agreed upon share sales options of USD 7.39 million, together USD 39.82 million
- EBRD has trust in the Norum Team and has strongly supported the management

NORUM'S TRACK RECORD (3)

- Several of the latest medium sized investments are showing very positive development and have a high potential to increase exit multiples significantly.
- Norum's view is that multiple to cost will be in excess to 2.0 and IRR above 20% on the fund.
- Portfolios (same companies) turnover has increased from entry years total USD 217 million to year 2002 USD 290 million, year 2003 USD 380 million and year 2004 USD 477 million. At the same time annual profit has increased from USD 5.4 million, 2002/USD 6.35 million, 2003/USD 16.39 million and 2004/USD 26.88 million.

SELECTED CASES (1)

Saw Mill

- First investment of the fund
- Technical up grade, energy saving, working capital
- Doubling the production output during five years
- Acquiring raw material suppliers
- Improving shareholders structure
- Norum team strong contribution in strategy, accounting, audit
- **> Successful exit - Russian buyer**

SELECTED CASES (2)

PVC products

- Inherited investment with major problems, nearly bankrupted
- Nomination of new management, total restructuring, small additional investment, strengthening of shareholding structure
- Tripled sales, controlled operations
- Transparent structures, audits
- Norum heavily involved in managing the restructuring process
- **> *Successful exit - Russian buyer***

SELECTED CASES (3)

Fish processing

- Ambitious entrepreneur, total up grade of old production facilities
- Real hands-on support from Norum, on strategic, technical, accounting and quality control issues
- Key figures:

	<u>1999</u>	<u>2003</u>	<u>2004</u>
Turnover (MUSD)	8.0	58.6	79.0
EBIT (MUSD)	0.6	4.5	5.2
- Leading fish processing company in the region, high quality branded products
- **> High exit potential - international buyer**

SELECTED CASES (4)

Food processing

- Leading Russian manufacturer of branded chicken products
- Green-field Start-up late 1998, the fund invested in 2001
- Key figures:

	<u>2003</u>	<u>2004</u>
Turnover (MUSD)	65	90
EBIT (MUSD)	9	10
- Ambitious expansion program – new factory #3 under construction
- Excellent Management team
- New value added products introduced with great success
- **> High exit potential - IPO/international buyer**

SELECTED CASES (5)

Food processing

- Leading Russian manufacturer of ice cream, in Siberia
- Green-field Start-up 1990's, the fund invested in 2002
- Key figures:

	<u>2002</u>	<u>2004</u>
Turnover (MUSD)	34	65
EBIT (MUSD)	4.4	3
- Ambitious expansion program – new factory, marketing in European Russia
- Excellent Management team
- Consolidation with another leading manufacturer?
- **> High exit potential - IPO/international buyer**

SELECTED CASES (6)

Plastic containers

- One of the leading producers of PET pre-forms for beer, water and soft drink bottles in Russia
- Production start-up 1997, turnover 2003 - USD 83 million
- Excellent Management team
- Strong market position
- Norum team actively involved in building new company structure, strategy development, expansion and exit
- **> *Successful exit - international buyer***

SELECTED CASES (7)

Glass Bottle Plant

A problem case - new production plant not yet fully completed in entry

- Total capacity of 250 million high quality bottles, new technology
- Was near bankruptcy during fall 2002
- Fund taken over 96% of shares, heavy rescue plan with total restructuring, new management, renegotiated debt
- Norum team had day-to-day management of restructuring process over one year
- **> Exit made with certain losses**

INVESTMENT POLICY FOR NEW FUND

1. Targets - Medium sized Russian companies with:
 - good management,
 - significant growth prospects and
 - focus on core business.
2. Turnover from €5 million to €100 million.
3. Average investment size between €5 million to €10 million.
4. The Fund will invest in unquoted private sector companies in Russia.
5. Main regional focus within European part of Russia.
6. The Fund can take minority or majority shareholding positions.

...INVESTMENT POLICY

7. Thorough technical, legal and financial due diligence as well as integrity checks and environmental review to be conducted in each investment case to avoid any unnecessary risks.
8. Corporate governance and transparent legal structures are central elements in implementation of investments; (board representation, veto rights, strong shareholders' agreements, foreign holdings).
9. Clear exit rules and company strategy agreed upon with major partners.

INVESTMENT FOCUS...

Main focus on areas in which the Investment Team has long experience:

- Consumer goods, with a specific focus on food sector industries
- Retailing
- Forestry and forest related industries
- Technologies
- Media, entertainment and tourism
- Industrial manufacturing

Other important factors in selecting targets:

- Management skills, proven business history
- Russian market orientation
- Competitive advantage in Russian markets, with export potential
- Substantial growth potential in Russia

...INVESTMENT FOCUS

- Companies mostly with Russian origin initiated by successful entrepreneurs. In some cases companies with foreign strategic partners.
- Minimum ownership 25% plus one share.
- Through efficient deal structuring ensure transparency and real cooperation with other parties towards common goals.
- Obtaining added value through hands-on management and networks.
- Strong pipeline created by pro-active selection of winners, good reputation and active marketing.

PE/VC CHALLENGES IN RUSSIA

- Add trust to the markets among investors (statistics, publications)
 - Open local investor markets for PE/VC (pension funds!)
 - Exit market (IPO's) needs also pension funds and other local institutional investors to act in Stock Exchange
 - More competition among fund managers
 - More focused funds (bio, tech, industry sector focus etc.)
 - More training of managers (universities), bottleneck!
 - Government soft money to support start up's (nutrition chain)
 - PR of PE/VC among entrepreneurs
- All this after 10 years of the start of PE/VC industry!