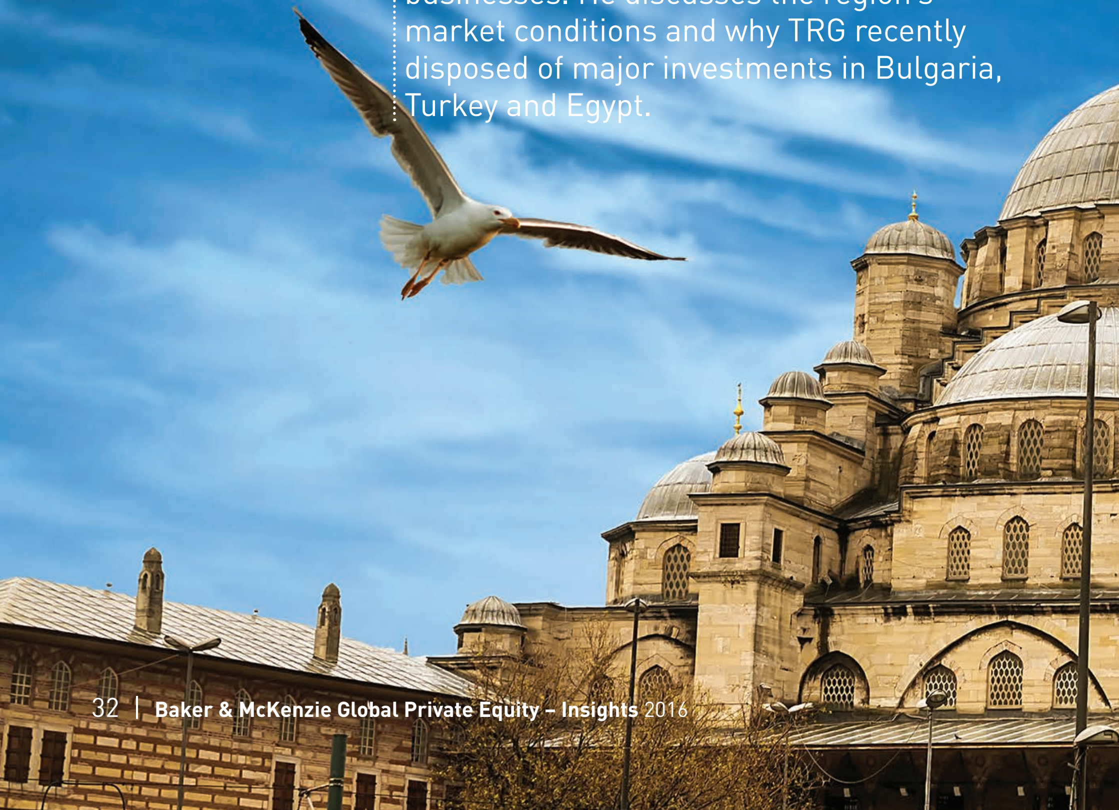
EASTERN EUROPE: FAMILY VALUES

Colin Clark, Managing Director and Head of **The Rohatyn Group**'s CEEMEA region, sees lots of investment opportunity in Eastern Europe, particularly through partnerships with family-owned businesses. He discusses the region's market conditions and why TRG recently disposed of major investments in Bulgaria, Turkey and Egypt.



You recently sold your interest in Amoun Pharmaceuticals, the largest generic pharmaceuticals company in Egypt, to Valeant. You also sold your interests in Beymen, the leading luxury retailer in Turkey, and Boyner, the leading department store chain in Turkey, to Boyner Perakende ve Tekstil Yatırımları and exited Huvepharma in Bulgaria. What drove those exits?
Each of these exits occurred due to a combination of factors: (i) the underlying businesses were performing very well; (ii) market conditions were right for an exit; and (iii) an exit window was available for only a short period of time, and due to the hard work and focus of the team we were able to close each transaction successfully.

In general terms, our approach is to invest in leading companies, many of which are family owned, and work together with the family to take the business to the next level of performance. We deliver our returns to investors primarily through top line growth of our portfolio companies. Typical strategies we adopt include accelerating performance in the company's home market, expanding into neighbouring regions and globally through our international connections and delivering bolt-on acquisitions that open up new markets and/or deliver substantial synergies. These efforts are supported by internationalising internal decision making, financial reporting and governance within each company. We spend a lot of time inside each portfolio company building value for our investors and focus on making sure the business is operating as well as it can, which underpins our ability to optimize our exits.

Recent exits from Egypt, Turkey and Bulgaria have demonstrated our ability to deliver for our investors in spite of challenging market conditions. Navigating through the global financial crisis, significant political upheaval in Egypt and currency devaluation in Turkey was certainly not straightforward but due to our focus on driving top line growth and timing the exit correctly, we were able to deliver attractive returns for our investors. During our period of ownership, Amoun, Beymen, Boyner and Huvepharma's revenues grew substantially.

> “We work with the family to take the business to the next level.”

What has changed since you spun out of Citigroup in 2013 and merged with TRG?
It is now 2.5 years since the core team of former CVCI (Citi Venture Capital International) professionals spun out of Citi. Our approach to investments hasn't changed and is consistent with our investment philosophy going back to the formation of CVCI in the early 2000s. What has changed is the way we raise funds, rather than how we invest them. Historically, we raised large global emerging markets funds and investment decisions were made purely on the merits of each business rather than geographical allocations or preferences. We see this approach changing as the investment community demands more say on allocation decisions and the continuing drive to be closer to portfolio companies. In this respect, TRG has a number of focused regional funds including South East Asia and Latin America and we are in the process of establishing an Emerging Europe offering.

Which jurisdictions are you avoiding right now?
We have not invested in Russia for some time and do not expect this to change going forward. In addition we are also avoiding former CIS countries including Ukraine due to a lack of market stability and the limited possibility for conditions to improve in the near-term. Turkey is a core market for us where we continue to be active but remain cautious at the moment given the increasing political noise.

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Where do you see the biggest investment opportunities?
Across Emerging Europe we are focussing on Poland, the Baltics, Czech Republic, Slovakia, Hungary, Romania and Bulgaria. Emerging Europe has one of the lowest private equity penetration rates globally, which indicates room for growth and limited competition for deals, particularly mid-market transactions with equity tickets around 30-50 million euros. While there may be limited opportunities for buyouts, we are seeing many opportunities for partnering with family-owned businesses and helping them grow into regional and global leaders – that's been a real differentiating factor for us.

Why do you see more opportunities in partnering with family businesses vs. buyouts?
TRG's approach in the region has focussed on partnering with founders as a means to open up investment opportunities into some of the region's best companies and then exit alongside them when we eventually sell. There are buy-out opportunities available but these are in short supply. We see a shortage of available capital across the region and across the capital structure with private equity, senior debt, mezzanine and junior debt more difficult to come by than in the past. This is in spite of the improving macroeconomic environment across the region. We offer capital to help grow the business and, leveraging TRG's global network, international connectivity to expand the company's reach, which many founders find attractive. Our view is that with the right strategy and focus on execution, any of our companies has the potential to grow into a leading international business.

“Emerging Europe has one of the lowest private equity penetration rates.”

> It is also important to have a clear exit strategy before you acquire a business.

What strategies have helped you make successful exits?
The million dollar question is, "When is the right time to sell?" Sometimes you need a little bit of luck, but successful exits primarily come from building great companies and being disciplined enough to exit them when the opportunity presents itself. At times our industry can suffer from hubris especially around the exit decision and so keeping one's feet firmly on the ground is paramount to ensure the right calls are made.

The Amoun exit is a good example of us taking a long-term view. TRG was initially looking to sell in 2011/12 but because of the political turmoil in Egypt we abandoned the exit process and focused on making further improvements in the business, including bringing in many new members to the management team to drive further growth, upgrading the plant and expanding the product range. As a result, the business experienced strong growth and we were in a significantly enhanced position once the window for an exit opened again.

It is also important to have a clear exit strategy before you acquire a business. Our experience in Turkey is a good example. We were able to secure a very attractive exit from Beymen and Boyner by selling back to our partner. While this was not part of our original exit thesis, we leveraged the robust rights originally negotiated on entry to secure an attractive exit for our investors. At the same time, we timed our exit well in this case by locking in a deferred sale structure in May 2013 fixing TRG's exit proceeds in USD. By the time all of our exit proceeds were received in mid-2015, the Turkish Lira had devalued by c. 50% from May 2013 levels.

Given that in many instances you are not acquiring control in the business, governance rights must form an important protection for your interests. Do you get resistance from family businesses?
Clearly when entering into a partnership, you are not just performing due diligence on the company but also on the prospective partner. In many cases, picking the right partner is just as important as the quality of the underlying business. While we take minority positions, our approach is not passive in nature and this is clearly communicated to our partners prior to an investment and is consistent with our approach to the market over the past 12 years. This manifests itself in an extensive list of corporate veto rights that we always insist upon, multiple exit rights (since we like to have at least a Plan A and Plan B for our exit) as well as downside protection. We like to structure investments where possible to mitigate risk. Clearly the combination of these extensive requirements is not for every partner but our strong track record in building leading international companies from the region convinces most prospective partners that the value of their business will be greater in the future with the support of TRG as a partner.