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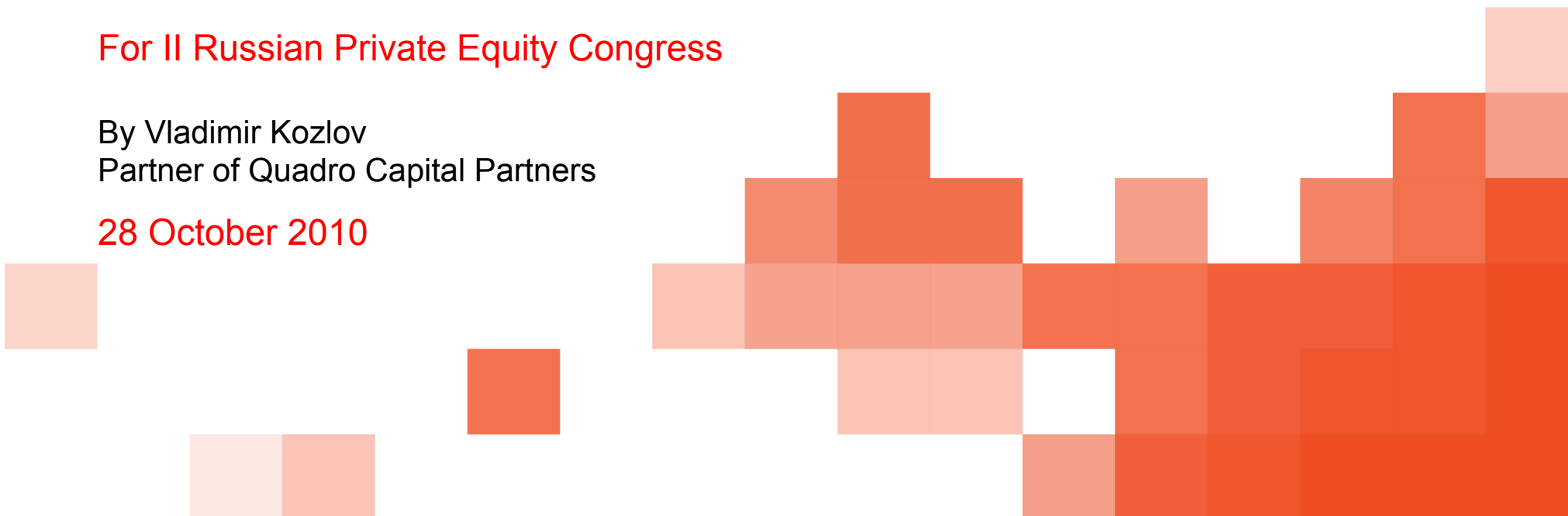
# Private Equity is Becoming “Private” Again

## Fundraising Challenges in 2010

For II Russian Private Equity Congress

By Vladimir Kozlov  
Partner of Quadro Capital Partners

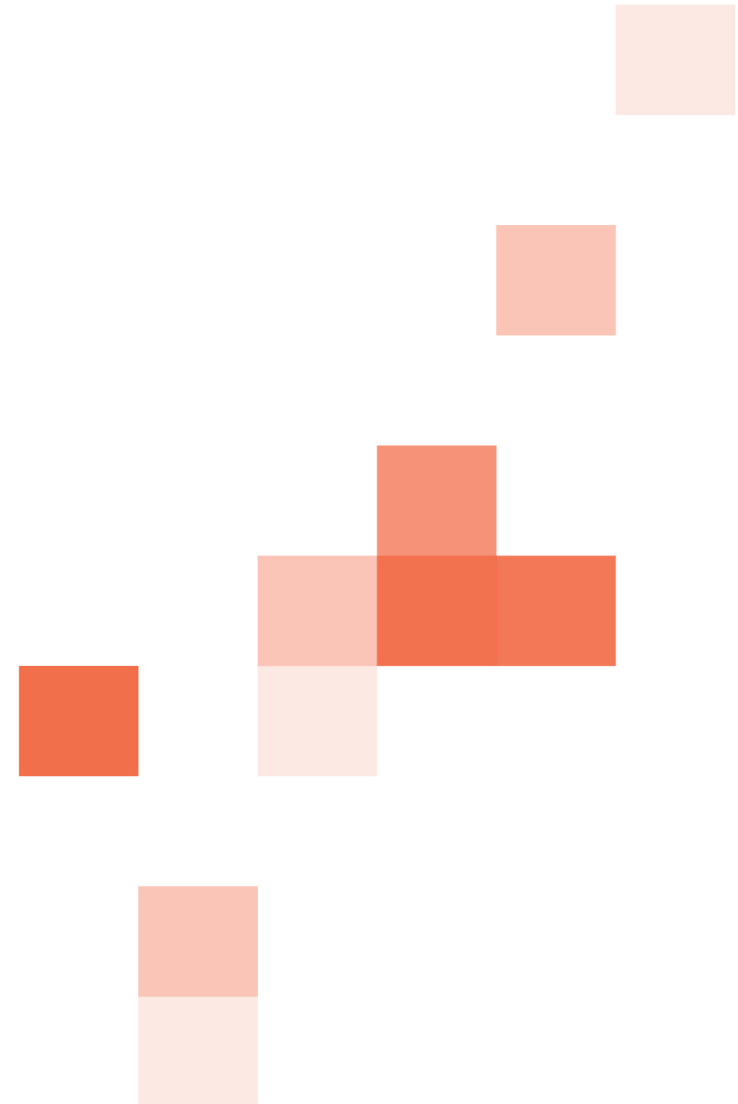
28 October 2010



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- Global and Russian PE trends
- Changing Investors' focus
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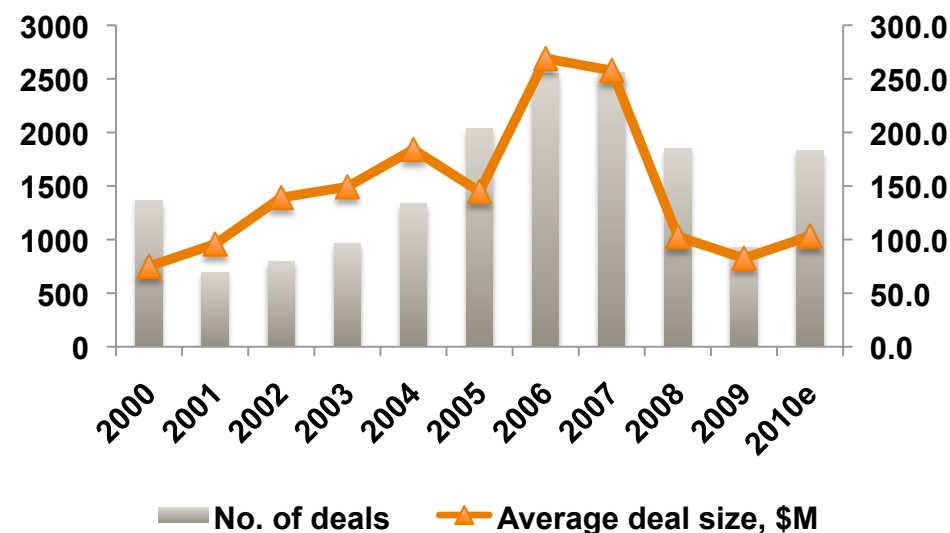
## Global Private Equity Trends

- Number of deals fell in 2009 almost by 50% comparing with 2007, in 2010 deal activity increased to the level of 2008
- However, average deal size is still much below the level of 2006-2007.

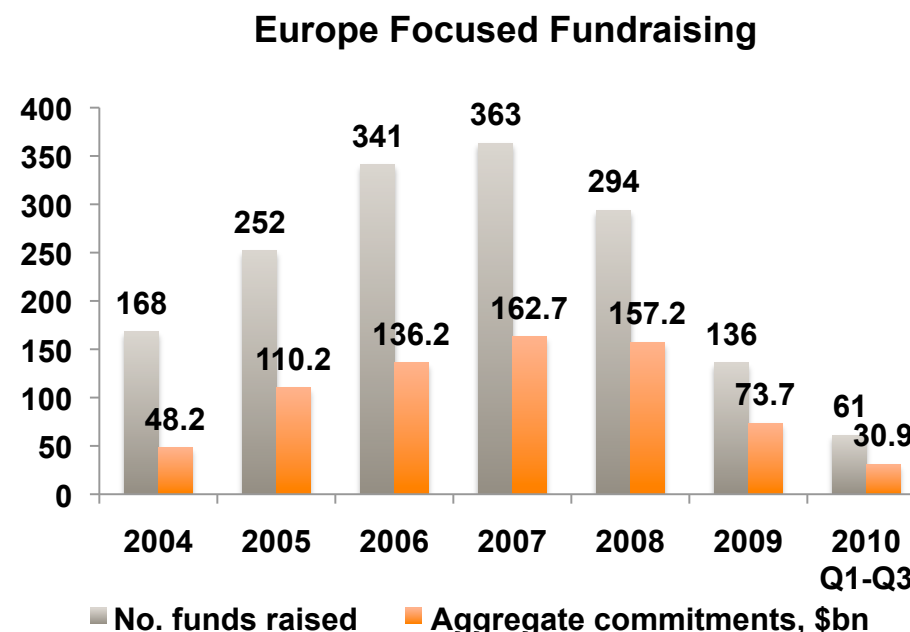
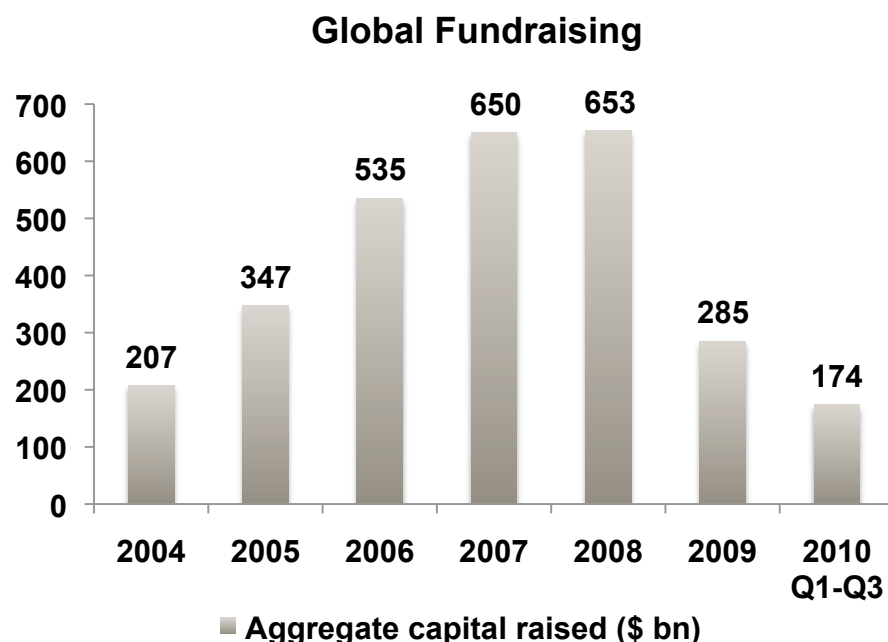
Moreover

- Deals tend to be smaller in size, involve more equity and have traditional multiples
- PE ability to raise debt for acquisitions has decreased
- PE's main focus is now to preserve value of its existing portfolios
- PE fundraising is under pressure since its sharp fall in 2009 (-54% over 2008)

PE Deals Number and Average Size



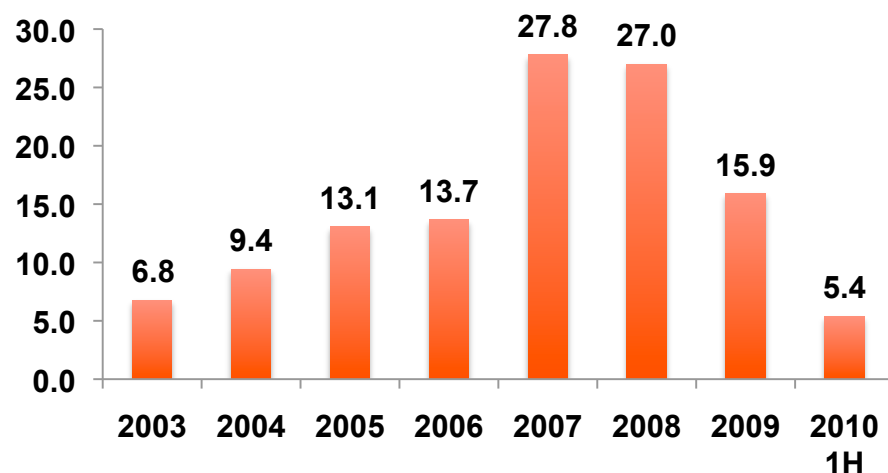
# PE Fundraising Has Fallen Significantly Both Globally and in the Regions



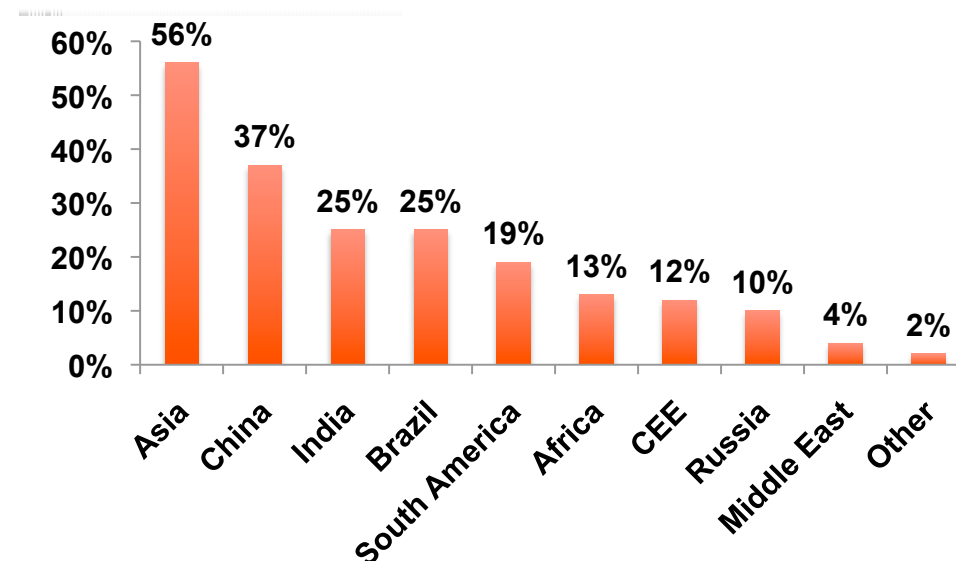
- PE fundraising worldwide is still under pressure since 2009. For 3 quarters of 2010 PE fundraising amounted to only 38% of capital raised for 3 quarters of 2007.
- Fundraising remains extremely challenging and is occurring at a fraction of the rate that the industry was seeing in the boom days of 2006–2008
- New commitments to PE funds fell both globally and in the regions as by number of funds as by aggregate capital raised
- Average time to achieve a final close of a fund has increased by 1.5 times during 2008-2010

# Russia Faces Significant Challenges in Attracting Private Equity Investments

FDI in Russia, USD B



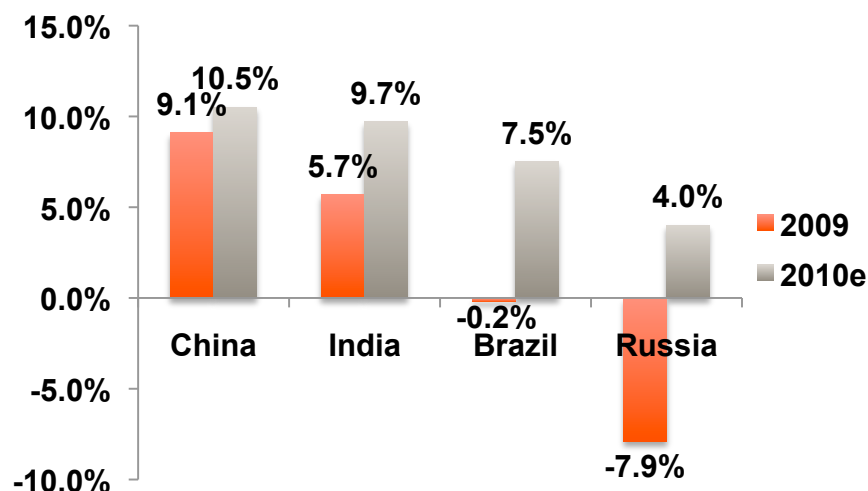
Regions and countries within emerging markets that are viewed as presenting the best opportunities in the current financial climate (% of investors in emerging markets)



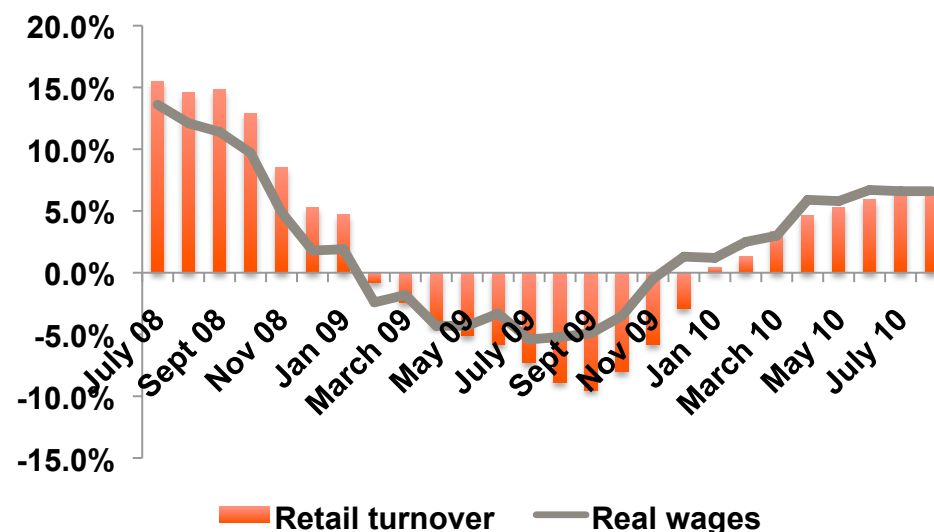
- FDI in Russia fell 41% YoY in 2009 and will unlikely to recover in 2010
- Russia is perceived as less attractive among other emerging markets

## One of the Reasons is Underperformance of Russia vs Other EMs

GDP growth in 2009 and 2010 (real)

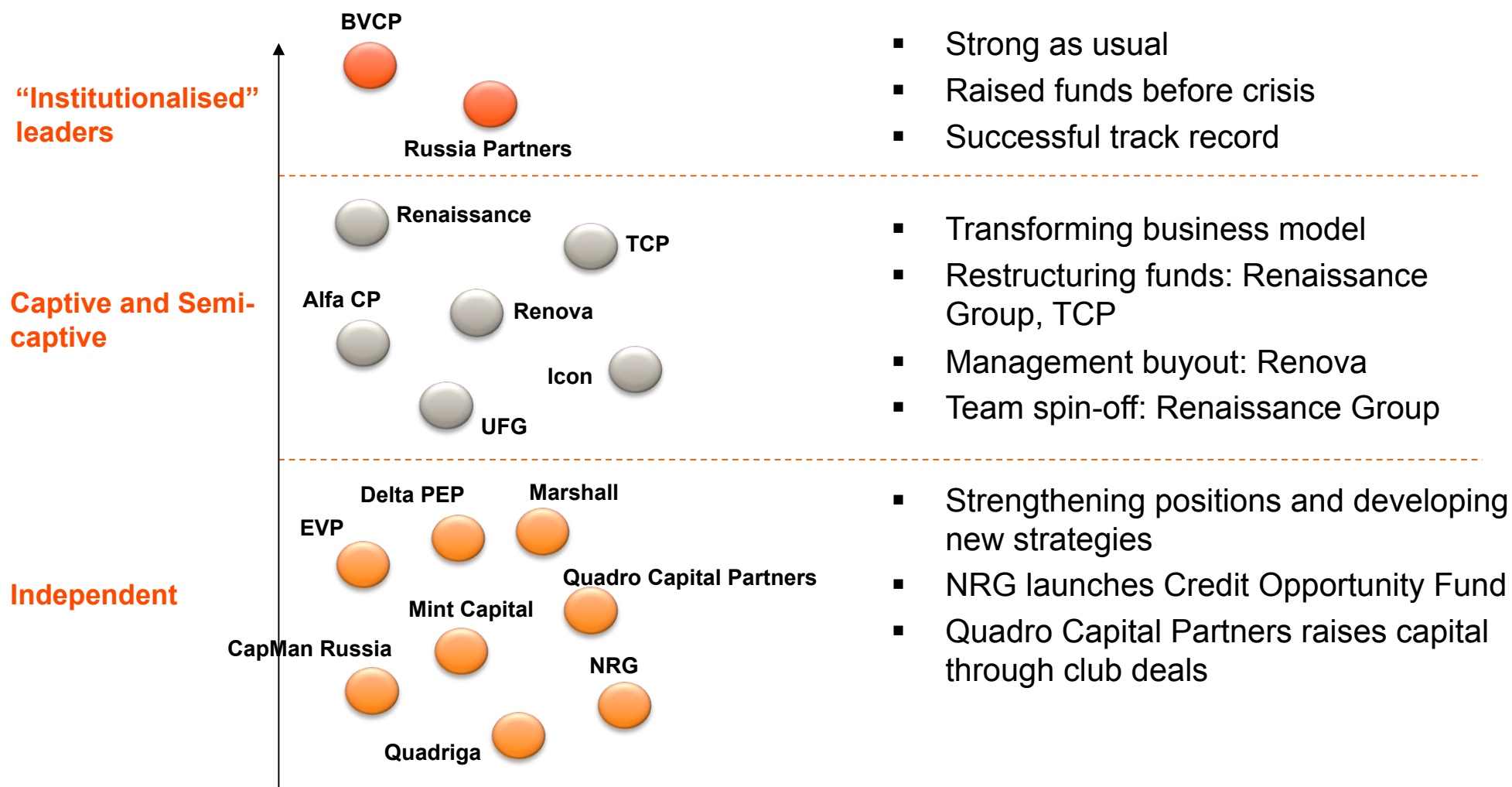


Average monthly real wages and retail turnover growth YoY



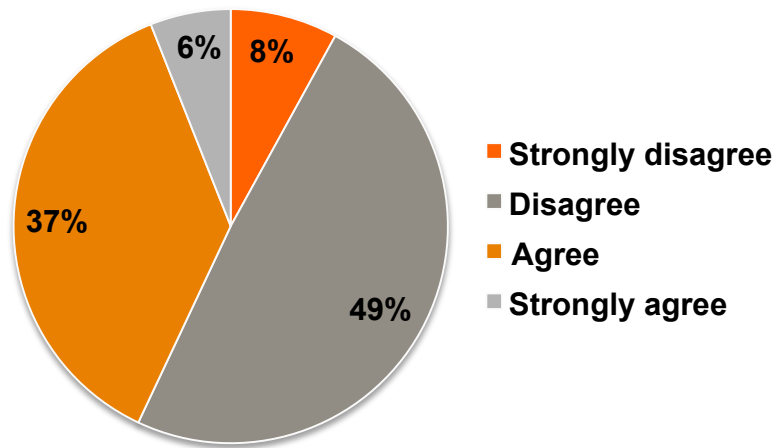
- Russia is the only economy among BRICs that contracted in 2009 by huge 7.9%
- In 2009 Russia's all major economic indicators fell, real wages and retail turnover reaching 10% decline YoY
- 2 major reasons of Russian GDP contraction are sharp fall in commodities prices and capital outflow in the end of 2008 - beginning of 2009 that drove growth in previous years

# Private Equity Competitive Landscape in Russia is Changing

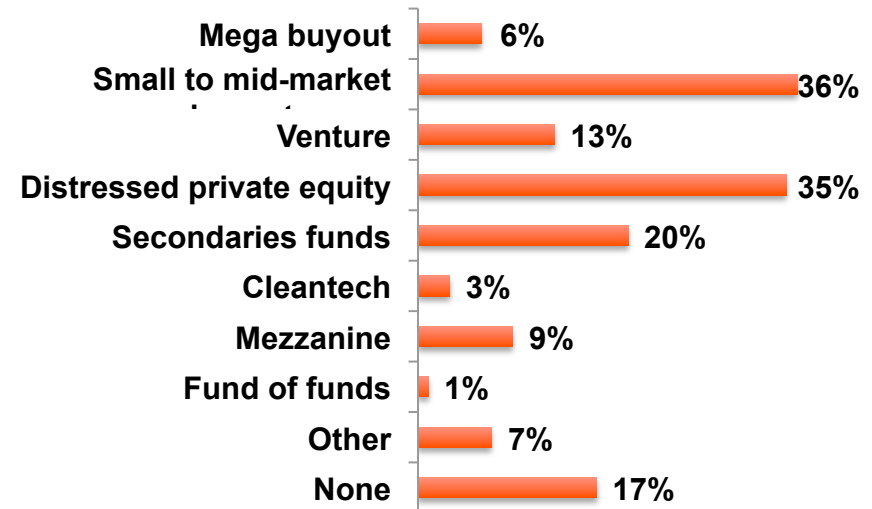


## Investors Favour More Clear Strategies and Trusted GPs

Proportion of LP respondents that agree with the statement :  
*“GP’s and LP’s interests are properly aligned at present”*



Fund types LPs view as presenting the best opportunities at present



- LPs reevaluate their relationships with GPs putting pressure on management fees and aligning interests
- Investors tend to be more careful in their commitments to PE funds
- There is a clear shift among investors to focused strategies



# Transforming Role of Private Equity Investors

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## Pre-crisis environment (before Oct 2008)

- Rapidly growing consumer markets fuelling double digit growth rates
- Expansion capital scarcity/ difficult access to debt capital without backing from a larger established partner
- PE investors are primarily viewed as providers of capital
- Limited competition between private equity investors

## Post-crisis environment (2009 and after)

- Temporary focus shifting away from growth towards
  - Improving operating and cost efficiency
  - Sector/ industry consolidation
  - Retention of customer base
  - Strengthening of management teams
- Debt refinancing and capital structure optimization is a recurring theme
- As a result, fewer “pure growth” investment opportunities for PE investors

## Changing role of a PE investors towards a more involved, dedicated partnership

- Expertise – industry knowledge and functional skills are sought after to assist investee companies to “sail” through the period of depressed economic activity
- Time allocation – more intense and hands-on involvement into investee companies’ activities on operating level, not only Board of directors’ supervision
- Trust and partnership increasingly important

## Fundraising Cases: Stronger Focus and Flexible Fundraising

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### Specific strategies

- January 2010. Vienna-based CRG Capital is joining forces with IFC and EBRD to establish a new €200 mn CEE fund to invest in distressed assets
- October 2009. One equity partners (JP Morgan) and Interros holding announced about establishing USD 1 bn fund major focus of which will be acquisition of distressed assets in Russia
- March 2009. NRG launches Volga River Credit Opportunity Fund to provide mezzanine financing and capitalize on credit opportunities

### Specific industries

- March 2010. Blackstone Group is working on raising USD 1 bn blind pool of capital to acquire failed banks from the Federal Deposit Insurance Corp.
- March 2010. Wermuth Asset Management is going to launch USD 200 bn size fund “Russia Power Investments” to invest in power sector in CIS
- February 2010. Finam launches Finam Technology Fund with target size USD 50-100M to invest in TTM companies

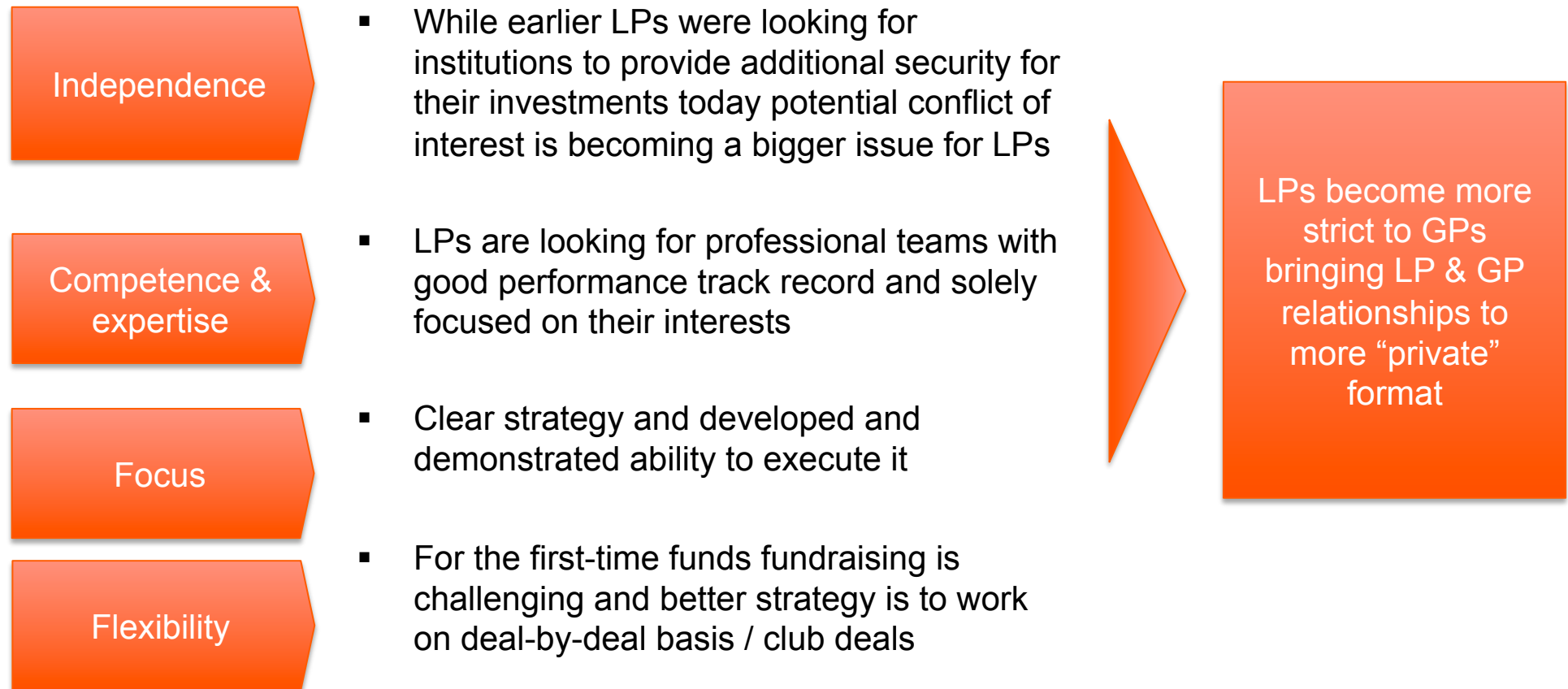
### Flexible fundraising

- March 2010. UK-based Candover is planning to raise new fund using new model. One of the options being considered is to raise money for new investments on a deal-by-deal basis from a select group of investors

# Private Equity is Becoming “Private” Again – LP/GP Relationships are changing

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LPs become more focused and GPs are under more scrutiny in terms of strategy, conflict of interest, team etc



# Quadro Capital Partners Profile

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## Who We Are

- **Quadro Capital Partners** is an independent and professional private equity manager with experience of managing funds in excess of USD 1 bn.
- The firm was established by a senior team of one of the leading private equity houses in Russia.

## What We Do

**Quadro Capital Partners** primarily focuses on the following areas:

- **Private equity investments.** We identify, invest in and develop companies that have a potential to grow into industry leaders. We actively involve and work together with portfolio companies to build sustainable and successful businesses and deliver strong capital growth to investors.
- **Professional portfolio and asset management.** We structure, create and manage funds and asset portfolios to offer investors and asset holders most efficient management arrangement to maximize value of portfolio.
- **Distressed and recovery asset management** We offer to asset holders and creditors an integrated solution, including due diligence, portfolio structuring, re-financing and capital restructuring, operational control, liquidity and asset management.

# Quadro Capital Partners Profile

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## Industries of Focus

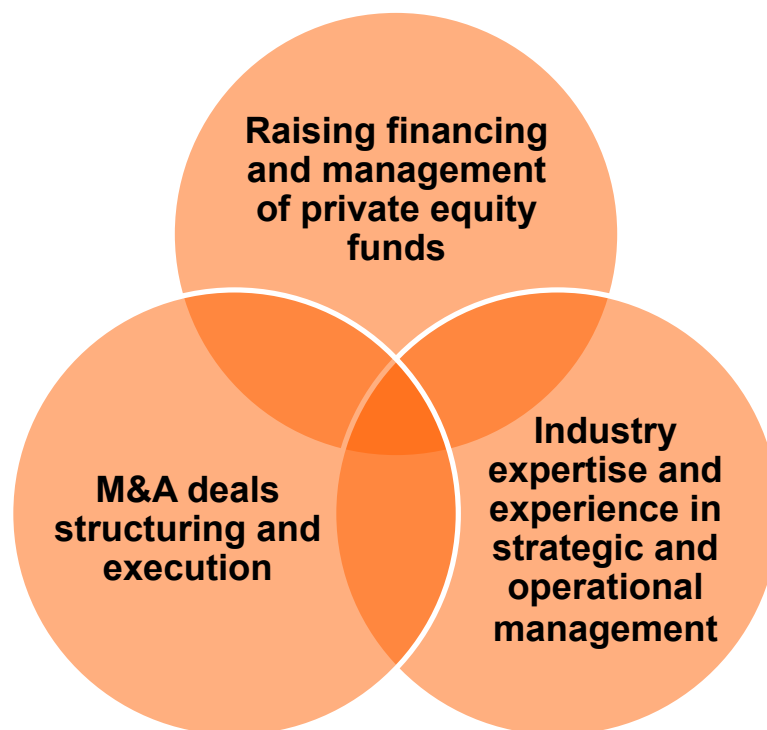
- **Retail**
- **Financial Services**
- **Consumer Goods and Services**

## Our Values

- **Sole focus on investors' interests.** We focus on transparency in operations and our investors' interests, avoiding conflict of interests.
- **Trust and alignment of interests with partners.** We build trust and align interests with our partners.
- **Active involvement in portfolio management.** We are active shareholder to deliver maximum value to portfolio companies.
- **Sharing best practices and international knowledge.** We bring best international practices to our portfolio companies and top-down fundamental industry research and deep understanding of the industry prior to investment

## Key Areas of Quadro Capital Partners Expertise

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- In total QCP team executed more than 20 investment projects in consumer and industrial sectors while managing private equity funds, and managed a number of M&A deals.

- Successful launch of private equity funds with a total size exceeding USD 1 billion under management of Troika Capital Partners.
- Raising of co-investments and debt financing – bonds, syndicated loans, mezzanine financing – with total size of more than USD 2 billion.
- Project financing of investment facilities – construction and expansion of production facilities and acquisition of new assets.
- Hands-on experience in operational management gained at senior positions in consumer and industrial sectors.
- Extensive experience in strategy and management consultancy with a leading international consulting company.
- Experience in developing and managing complex operational improvements programs for leading Russian and international companies with direct effect on profitability.

# QCP Team Experience in Strategic and Operational Asset Management

## Strategic Planning / M&A Strategy

- Development of growth/M&A strategy in production of decorative and packaging materials – acquisition of the largest competitor (deal size –USD 40 million) . Arranging acquisition financing, business integration and optimization of four production facilities. Reaching leading position in the segment.
- Development and implementation of expansion strategy of economy class apparel stores chain.
- Development of strategy on industry and geographic diversification for the largest mining and metallurgy company, implementation of projects on acquisitions of mining and processing enterprises in Finland, Australia and South Africa.

## Investment Planning

- Development and implementation of investment program for production capacities expansion of decorative and packaging materials producer (total investment size – USD 20 million), conducting of tenders and entering into contracts on equipment supply.
- Development of technical design and project management of a new plant construction for a leading consumer goods company (total investment size – USD 60 million).

## Optimization of Capital Structure

- Raising of more than USD 2 billion financing through different financial instruments – notes, syndicated loans – to finance growth of a leading Russian factoring company.
- Raising of syndicated loan in amount of USD 6 billion for acquisition of production assets of international mining and metallurgy company.
- Arranging financing for a retail company - importer of consumer goods – through issue of banker's letters of credit (amount – USD 30 million).

## Operational Efficiency

- Implementation of turnaround management - cost reduction of program at a retail company; result – cost reduction by 75%.
- Implementation of efficiency improvement programs in different functional divisions – production, supply and sales, in industrial (metallurgy, tube industry, transport) and consumer (retail, food production) sectors. Achieving cost savings of up to 35%, improving of lead times and simplification of operations.

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