



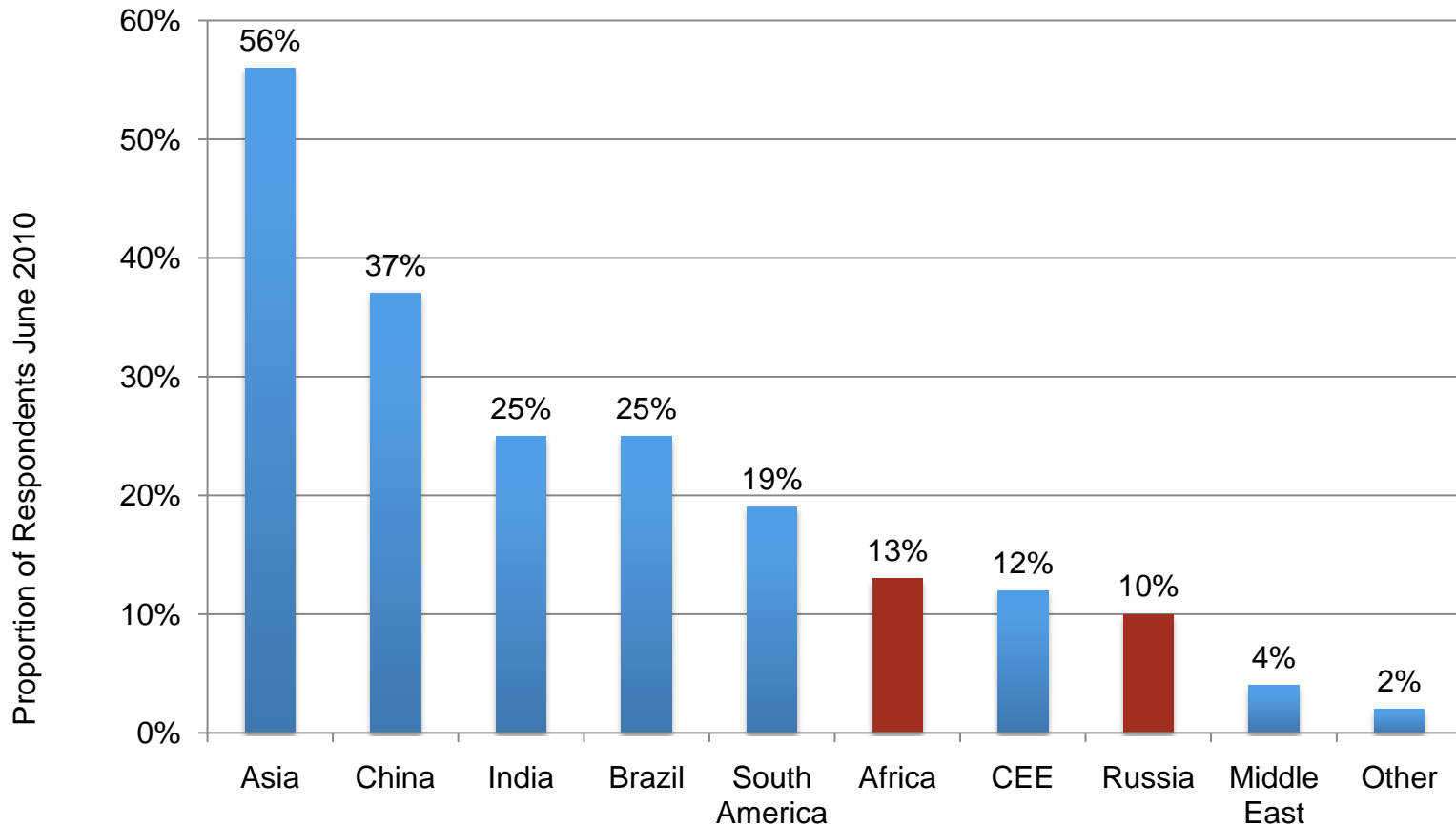
# Why Invest In Russian Private Equity Now?

II Russian Private Equity Congress  
Moscow  
28 October 2010

Benjamin Wilkening  
Partner, Mint Capital

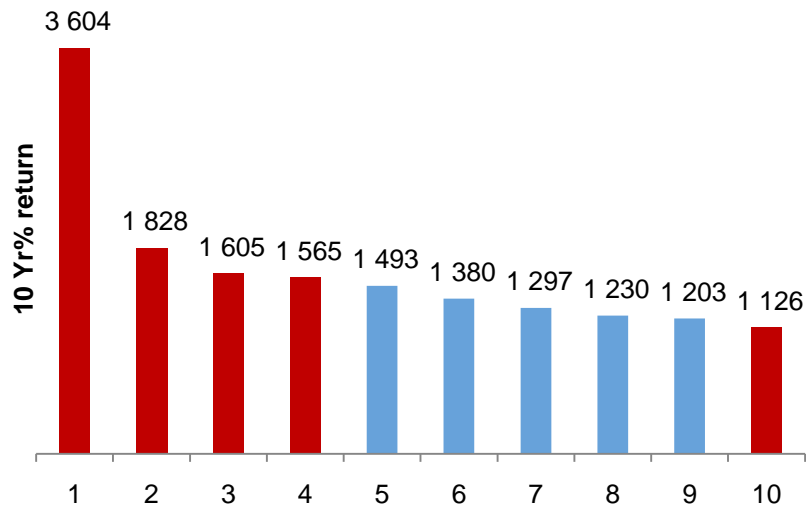
# Russia Worse than Africa?

## Regions and Countries within Emerging Markets That Are Viewed as Presenting the Best Opportunities in the Current Financial Climate



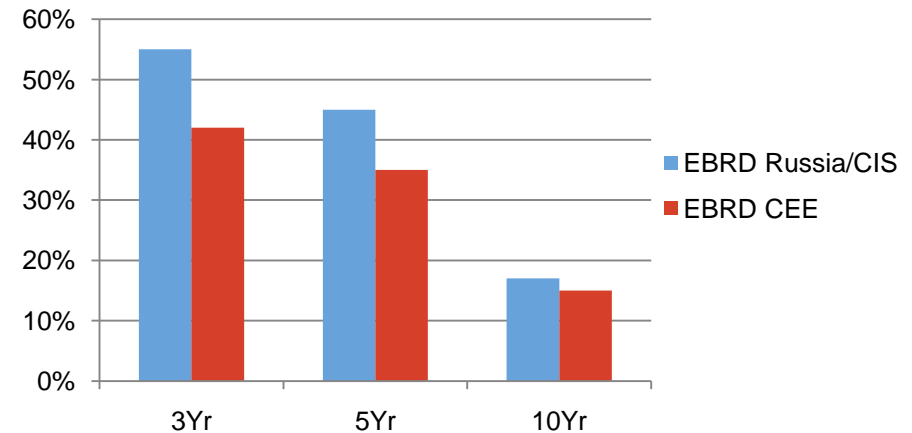
# Long-Term Performance of Russian Funds

Top 10 global funds Dec 1999-Dec 2009



Source: Morningstar

Comparison of PE returns (USD)



Source: EBRD



## Three Stages of PE in Russia



1994-1998

**Post-Privatization  
Grab**

1999-2008

**Entrepreneurial  
Awakening**

2009→next bubble

**Consolidation**

# Opportunities and Value Drivers

1994-1998

## Post-Privatization Grab

- Cheap assets
- Corporate control
- Legal restructuring
- Basic turnaround work

1999-2008

## Entrepreneurial Awakening

- Consumption/real income growth
- Import substitution
- Improvement of corporate governance
- Implementation of proven business models
- Initially low levels of competition

# Challenges and Risks

1994-1998

## Post-Privatization Grab

- Political and legal threats
- Lack of macro visibility and predictability
- Tax regime
- Total lack of quality management/entrepreneurs

1999-2008

## Entrepreneurial Awakening

- Rapidly intensifying competition
- Skill limitations of entrepreneurs/managers
- Compensation inflation
- Limited access to quality deals;
  - too expensive, or ...
  - ... financed with debt, not equity

# Outcomes

1994-1998

## Post-Privatization Grab

- Few deals with stellar performance
- Many investments lost in battle for control
- Substantial write-offs before and during '98 ruble crisis

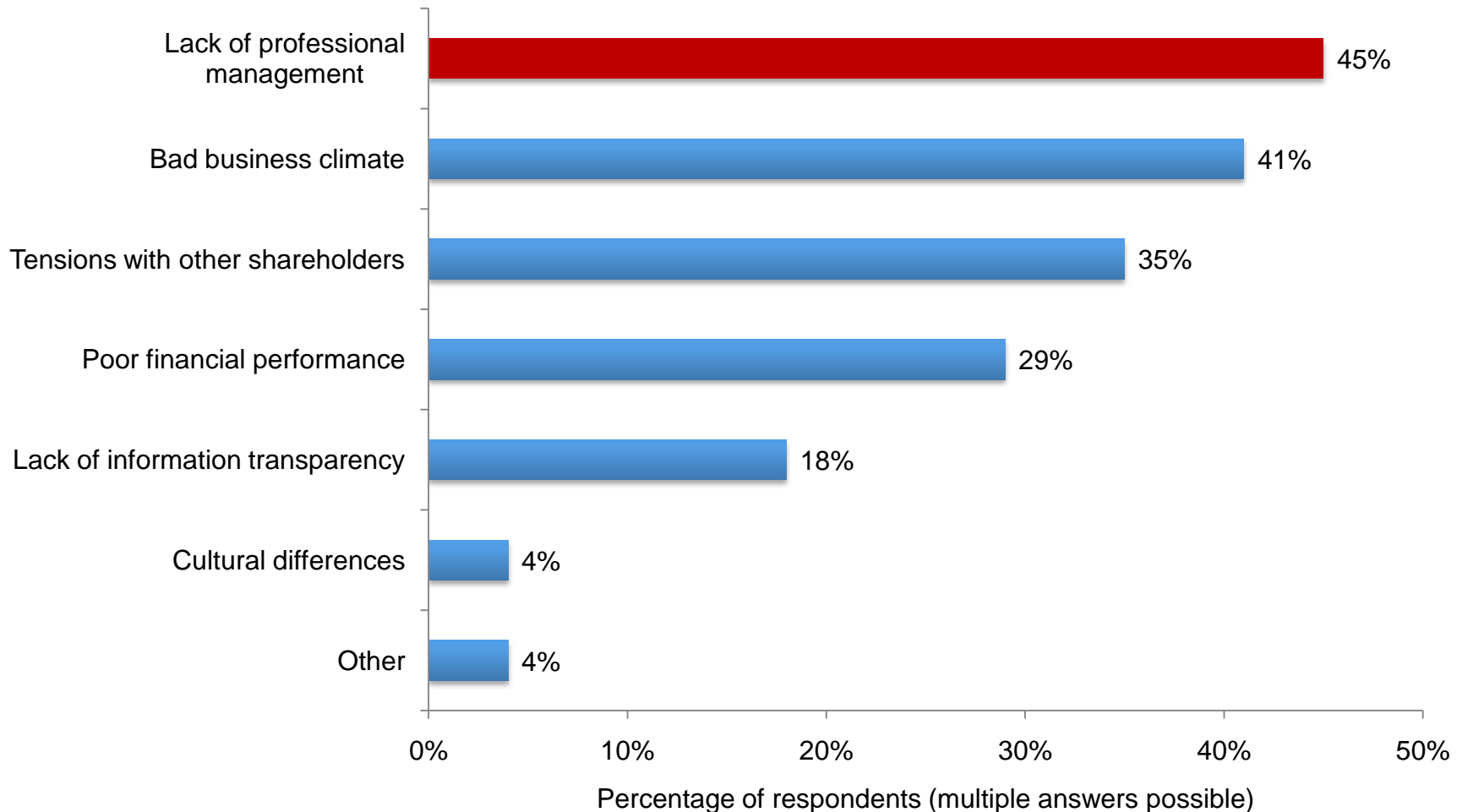
1999-2008

## Entrepreneurial Awakening

- Organic growth rates often >30% p.a.
- Strategic exits at very high multiples
- Speed of growth over profit
- Some write-offs in credit crisis due to:
  - Overleverage
  - Lack of focus on profitability

# Key Challenge in Stage 2: People, People, People....

## Top Problems You Typically Encounter after Deal Closure More than Expected





# Expected Changes in the Consolidation Stage

2009→next bubble

## Consolidation

### Opportunities and Value Drivers

- Industry consolidation; shake-out of weak players
- More experienced/skilled entrepreneurs/managers
- End of easy credit, more equity-driven deals
- Maturation of financial markets; new instruments (e.g. mezzanine, sell and lease-back)
- Emergence of Western-type buy-out opportunities
  - “Tired entrepreneurs”
  - Oligarch/minigarch divestments

### Challenges and Risks

- Slower organic growth/returns
- Finding right balance of growth vs. profitability
- Boosting results with leverage (but without excessive risks)
- Execution, execution, execution

### Outcomes

???



## Summary: Why This Is a Good Time to Invest in Russian Private Equity

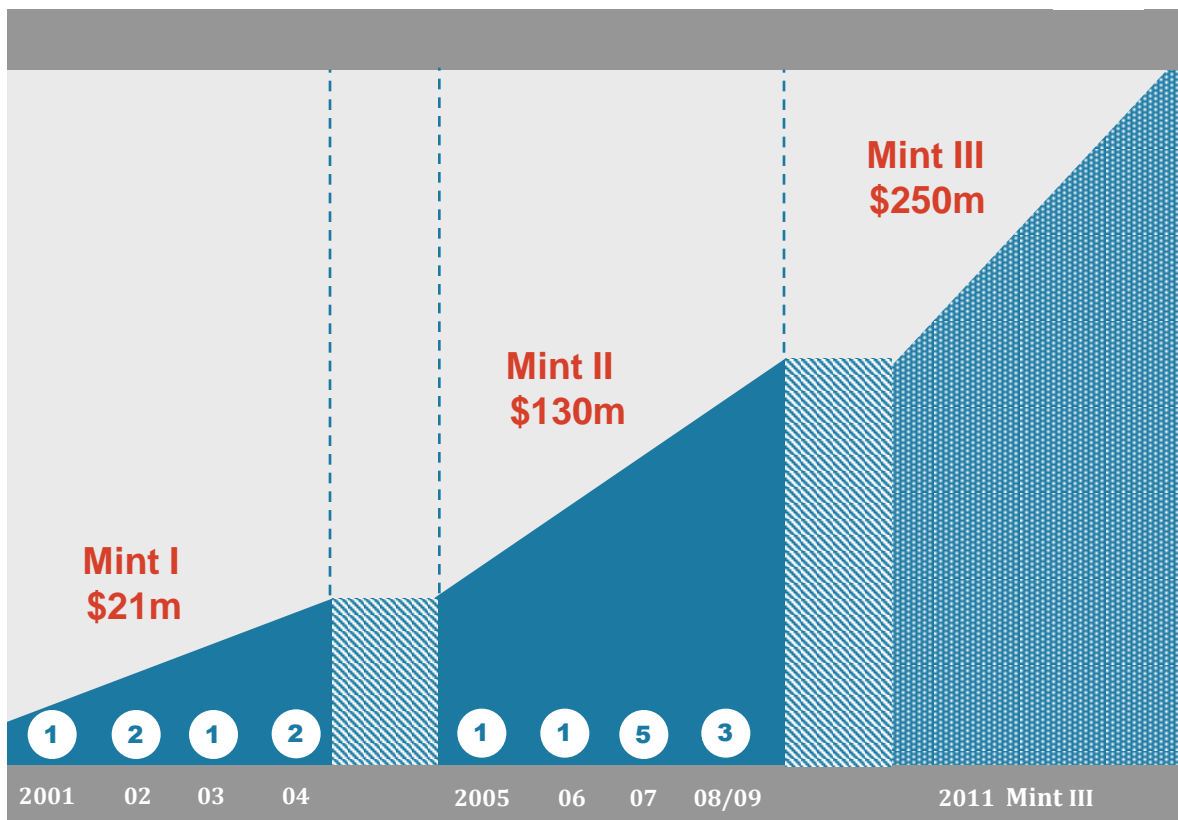


- More mature market
- More adequately experienced entrepreneurs/managers
- More quality deals
- More focus on operational execution and profitability
- Less fantasy deals built on 5-year DCF-valuations



... until the next bubble starts to inflate

# Natural Progress to Take Advantage of Stage 3 Opportunities



## Taking the best of Mint II investment strategy to Mint III

Mint I	Mint II	Mint III
Technology, media	Private consumption	Consumption
Export / Domestic market	Domestic market	Domestic market
Early stage / growth capital	Growth capital	Growth capital + buy-out
Small companies	Mid-sized companies	Mid-sized companies
\$0.5-3m per deal	\$5-10m per deal	\$15-40m per deal
Minority stakes	Minority stakes	Minority & majority stakes