

The golden age of private equity

ACQ speaks to Axxess Capital's managing partner, Horia Manda, about recent business activity and what the future holds for private equity. Kristen Lackajis reports.

Axxess Capital is the Investment Manager of the Romanian American Enterprise Fund (RAEF), and the controlling shareholder of the General Partner of the Balkan Accession Fund C.V. (BAF).

Axxess Capital is managing over 220 million EUR private equity investments in South Eastern and Eastern Europe, with 10 senior professionals in 4 offices in Bucharest, Sofia, Kiev and New York.

Romanian-American Enterprise Fund was established in 1995 with USD 55 million in capital provided by the U.S. Congress to support the development of the private sector in Romania through direct equity investments and loans. Since its inception, RAEF and its management company, Axxess Capital, have led and participated in equity and quasi-equity transactions amounting to over USD 150 million. Furthermore, the investee companies have been leveraged by attracting more than USD 200 million in bank debt.

As per June 30, 2008 RAEF cumulated results were: Gross IRR of 26% and multiple of 3.4 x money. A special emphasis has been made on Financial Services starting 1998. The Financial Services sub-portfolio has been the largest in the total portfolio and, by far, the most successful one: out of 7 investments, 6 have been exited at total gross proceeds of 5.9 x Money and 57% IRR.

RAEF has completed a large range of private equity investments including: privatizations and restructurings (Policolor, Rolast, Marmosim, Banca Agricola), development capital to private companies (Banca Romaneasca, TitanMar, Logic Telecom Etc.), Joint Ventures and start-ups (Motoractive, Connecticut Manufacturing Company, Domenia Credit, RALFI etc.).

Balkan Accession Fund is a EUR 110 million fund, designed specifically to take advantage of investment opportunities related to the 2007 EU accession of Romania and Bulgaria. BAF also invests in selected transactions in Western Balkans, Moldova and Ukraine.

BAF invests in equity and mezzanine and its major investors include RAEF, EBRD, Deutsche Entwicklungs Gessellschaft (DEG), FMO, Black Sea Trade and Development Bank (BSTDB). The fund was closed in 2006, has a 9-year life, an investment period of 5 years and is targeting a gross IRR of +20%. To date performance includes eight investments out of each two have been already exited and another one in advance negotiations for exiting. Total gross exit proceeds are at 3.6x invested money and 75% IRR.

Horia D. Manda is the Managing Partner of Axxess Capital with an extensive experience in equity and debt investments in South-Eastern Europe. He joined RAEF in 1996, initially as an investment officer, then as a Vice-President and SIO and finally as Senior Vice-President and CIO being involved in the whole investment process, from originating deals to closing, funding and nurturing. Mr Manda has an impressive track record in managing as chairman of the board a significant number of RAEF's investments, especially in the financial sector. He was also actively involved in their fast growing and than in managing successful exits from some of these investments. He had an essential contribution in structuring and closing two other funds, the Balkan Accession Fund and the Romanian Industrial Energy Efficiency Company, as well as setting-up the investment banking/advisory practice of RAEF. Currently, he manages approximately EUR 220 million in assets for the 2 funds, RAEF and BAF. Mr. Manda holds a Ph.D. and a M.Sc Mathematics from the University of Paris VII, a MBA from the Canadian MBA Program, administrated by the University of Quebec, Montreal - and a M.Sc.- Physics from Faculty of Physics, Bucharest University.

Mr Manda comments on what he believes sets Axxess Capital aside from its competition: "We adopted from the beginning and remained faithful to the buy-and-build strategy," he begins. "By working with the most dynamic local entrepreneurs and prominent companies in Romania and South-Eastern Europe region, Axxess Capital has developed (over more than 12 years of PE investments) and aims to further build strong national and regional businesses. The investment team has gained a particularly strong experience in developing greenfield or early stage companies. Such experience was and will further be applied for well known sectors but in new

countries, where we can replicate successful investments, as it was the case of leasing and consumer finance, originally developed in Romania and then extended to Bulgaria, Moldova and Albania.

"This active involvement in the companies was one of the main ingredients for success, and makes the difference between our team and other investment managers."

RAEF entered Policolor in 1997, when the Company was privatized, by acquiring together with Romanian Investment Fund (Cyprus) Limited ("RIF") the total stake of 51% of the share capital sold by the state.

Under the direct supervision of RAEF and its partner RIF, Policolor undertook a deep restructuring process targeting development both through organic growth and through acquisitions.

During 1998 Policolor acquired, in a privatization transaction executed with the involvement of RAEF and BAEF, 51% interest in the largest similar Bulgarian company, Orgachim ("ORGA"). This 51% stake has been subsequently increased to 65% (at a non-material marginal cost compared with the acquisition price). Through this acquisition Policolor became the first Romanian industrial company expanding outside the country borders.

At the moment of the initial investment, in 1997, Policolor had total sales of about €32 million, too large diversification of products, excess of capacity and over-stuffing (1,730 headcounts), being valued at about €16 million.

The restructuring process was longer and more complex than initially estimated because its early stages had to be implemented during the economic decline of the Romanian economy in 1998-2000. After a turn-around phase, the company repositioned for growth.

After completing the business restructuring, Policolor reached consolidated sales of almost €94 million, having the products' range and capacities adjusted to the market demand in 2007.

Policolor was listed on BSE on March 12, 1997. The Company's market capitalization at the exit date was of €83m. Orgachim shares are also traded on the stock exchange in Sofia.

As already known, RAEF successfully exited from this (oldest) investment by selling its total stake of 33.23% to RC2 (Cyprus) Limited and Romanian Investment Fund (Cyprus) Limited ("RIF"), two affiliated shareholders of the Company. The exit price provided a gross IRR in excess of 21% for an 11 year investment period and a multiple of 6.5x invested amounts.

At the beginning of 2008, Axxess Capital finalized two transactions: Industrial Access (construction equipment rental) and Capa Finance (micro-lending), performed second-round financing in several portfolio companies for sustaining their growth. Some transactions, under different stages of completion, have been postponed to be further reassessed in consideration of the effects of the financial sector crisis.

Two exits were negotiated out of which Policolor was realized in June.

Mr Manda comments on how he believes the credit crunch has affected business at Axxess Capital: "We consider that our investment strategy that has proven so far superior results (and returns) was not affected by the markets turmoil. The management continued the careful selection of the sectors or niches with high growth potential and has avoided auctions or other competitive processes used in larger deals whereas further focusing on good fundamentals, in early stage and development capital opportunities where we continue to see attractive entry multiples.

"In our opinion, the general economic evolutions have not been factored out in the asset prices in the region for the first half of 2008 and the gap between the expectations of the investors and those of the local entrepreneurs deepened. We have recently seen that this trend starts to be reversed and we expect the assets' value coming down to more reasonable levels.

"Those that have been in the market long enough know that the best investments are those made at the bottom of a cycle. This may be the beginning of a golden age of private equity." **ACQ**



Horia Manda

DETAILS

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Axxess Capital