



Financing options for leveraged deals and exit strategies

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Financing and exit options for PE investments

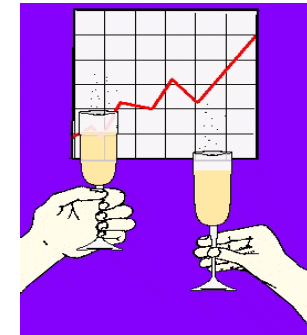
Financing

- Management and leveraged buyouts (MBO/LBO)
- Securitisation (incl. LPs` commitments to PE funds)
- Capital markets instruments (bonds, convertibles)



Exit

- Initial Public Offerings (IPO)
- Trade Sale
- Secondary buyout, or sponsor-to-sponsor sale
- Traditional merger
- Liquidation of assets
- Shares swap



■ Other creative strategies:

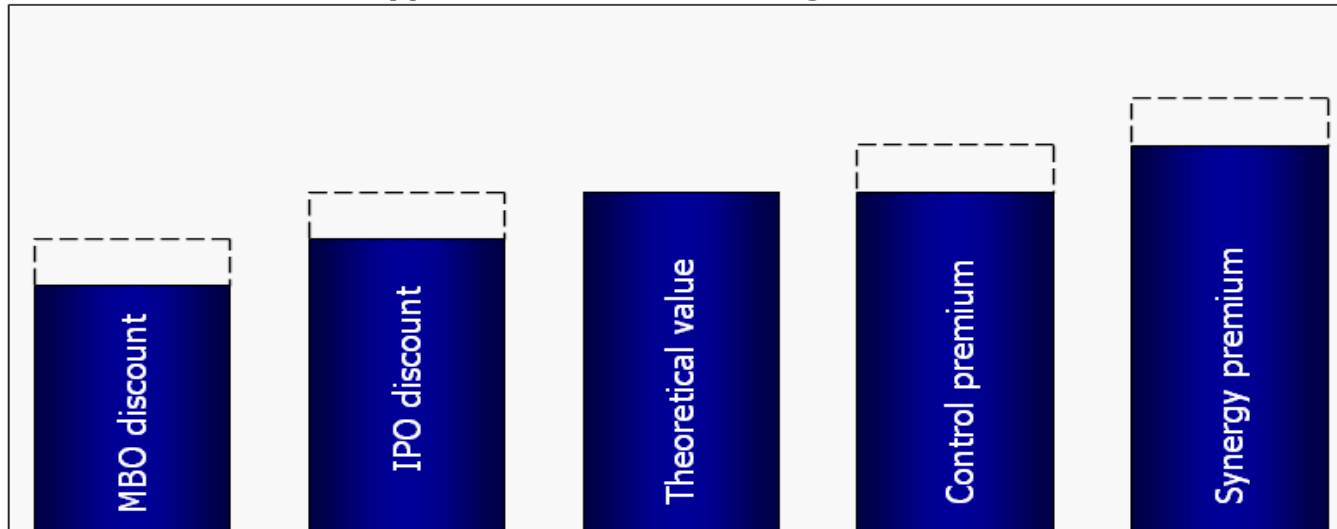
- Recapitalization exit: private equity firm re-leverages its portfolio company and uses the proceeds to pay a dividend to the equity holders
- Strategic merger/reverse takeover: bypass the IPO process by merging the portfolio with a public company



Exit options from PE Investments (Valuation approach)

- **IPOs** valuation usually have a certain discount to fair company value in order to provide shares with appropriate demand and liquidity on the market
- In case of **business divestiture to strategic investor**, the company, conversely, is able to obtain premium for controlling stake and possible synergy effects

Theoretical valuation approach to IPO and strategic divestiture



Source: Deloitte & Touche, ACP estimates

- **IPO with determined strategic partners.** This will secure the success of the placement and provide high demand for the shares. Moreover, the presence of strategic and influential shareholders in the company will increase its market value. Along with obtained high market value, shareholders will always have an opportunity to sell the company to strategic investor on the fair or even with the premium to the market value.

IPO vs. Divestiture to strategic partner

	Initial Public Offering	Divestiture to strategic partner
Cash out	<ul style="list-style-type: none"> ■ Placement of minority stake, ■ Possibility for secondary listing with fairer value 	<ul style="list-style-type: none"> ■ Opportunity to sell up to 100% in the company
Control	<ul style="list-style-type: none"> ■ High opportunity to secure control stake in the company 	<ul style="list-style-type: none"> ■ Minority stake is often out of major interest for strategic partner
Price	<ul style="list-style-type: none"> ■ Market price formation ■ Highly depends on brand recognition, macro economic factors 	<ul style="list-style-type: none"> ■ Control stake and synergy effect premiums ■ Price negotiations are common
Expenses	<ul style="list-style-type: none"> ■ Up to 10% of placement value ■ IPO discount (5-20%) 	<ul style="list-style-type: none"> ■ 3-5% of the sale price
Prerequisites	<ul style="list-style-type: none"> ■ Takes significant time and labor resources ■ Obligation to follow listing requirements 	<ul style="list-style-type: none"> ■ Presence of potential buyers on the market
Size	<ul style="list-style-type: none"> ■ Shares liquidity and volatility directly depend on placement size and free float 	<ul style="list-style-type: none"> ■ Majority stake
Process	<ul style="list-style-type: none"> ■ Control over the process is limited. No further opportunities in case of unsuccessful IPO 	<ul style="list-style-type: none"> ■ Full control over the process ■ Opportunity to resume the process after initial failure

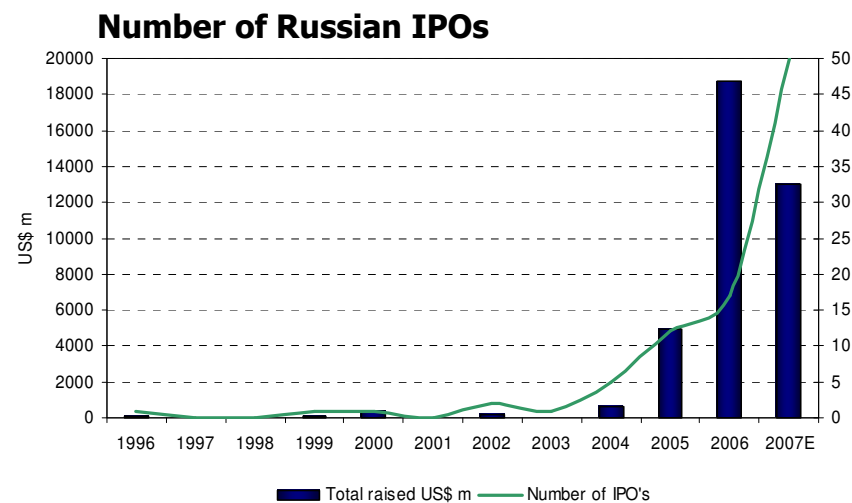
Exit risks in Russia



- **Liquidity.** Fixed assets have naturally less liquidity compared to current assets or money. Financial investors may not meet certain demand for the asset, or the market price can be below their expectations. The investor can simply 'get stuck' with the asset for years.
- **Hostile takeover risk.** Company can be subjected to hostile takeover by major industry players, what can have negative impact on sale proceeds
- **Market risks.** Market price formation is a very complicated mechanism, which is hard to predict. Many factors, like macroeconomic situation in the country, political events, global commodities prices, availability of alternative investments can significantly influence the market price of an asset
- **Political risks.** Many investors are not aware of political course after president elections in 2008, thus trying to monetise investments within current political forces.
- **Legal claims.** Certain industries are considered to be of strategic interest for Russian Federation. Government has a 'track record' fro using legal, tax and environmental claims as an efficient instrument for cheap company takeovers by state companies

Russian IPO market overview

- Reemergence of Russian economy and current improvements of investment and credit ratings make IPO an efficient mechanism for financing current activities and monetizing of previous investments
- By November 2006, 17 from total of 40 Russian public companies have successfully completed IPOs and raised approximately US\$ 19 bn
- More than 50 companies are planning IPOs in 2007*



Source: Alfa Bank, ACP research

Largest Russian IPOs in 2006

Nº	Issuer	Industry	Placement date	IPO volume (US\$ m)	IPO %	Market
1	Rosneft	Oil	14 July	10 400,0	14,8	MICEX, RTS, LSE
2	TMK	Metals	31 October	1 070,0	23,0	RTS/LSE
3	Severstal	Metals	08 November	1 063,0	9,1	LSE
4	Komstar-OTC	Telecommunications	07 February	1 060,0	35,0	LSE
5	OGK-5	Power	31 October	459,0	14,4	MICEX, RTS
6	Sistema-Gals	Real Estate	03 November	420,0	18,0	LSE
7	Magnit	Consumer	28 April	368,0	19,0	RTS
8	STS-Media	Mass Media	01 June	346,0	16,4	NASDAQ
9	Raspadskaya	Mining	10 November	316,7	33,0	MICEX, RTS
10	Chelyabinskiy	Metals	07 November	281,0	18,0	RTS,LSE
11	Cherkizovo group	Food	10 May	251,0	27,8	MICEX, RTS, LSE
12	RGI International Ltd.	Real Estate	11 December	192,0	31,5	LSE (AIM)
13	Razgulyay group	Agriculture	06 March	144,0	25,0	MICEX, RTS
14	Verofarm	Pharmaceutics	25 April	140,0	49,9	RTS
15	World Trade Center	-	05 December	105,3	Source: ACP own research	RTS, RBC
16	Belon	Mining	05 June	57,0	25,0	RTS

* Alfa Bank, RBC, ACP own research

Russian IPO market overview

Key factors, pushing Russian companies to public markets:

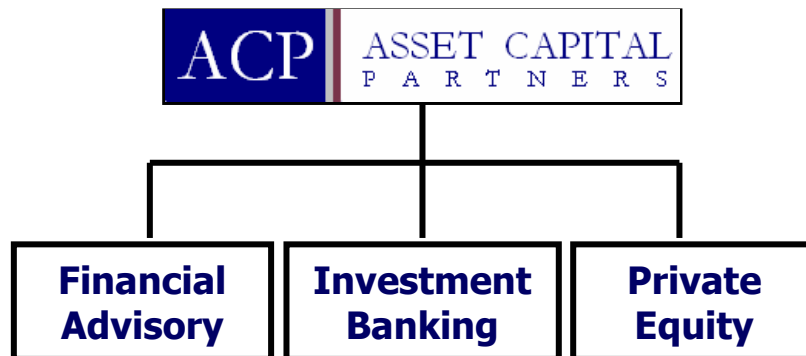
- **Mechanism to raise capital now exists.** Russian companies now have “tried and proven” mechanism to raise capital for expansion and growth.
- **Sellers understand the benefits of an IPO.** Historically companies and their owners in Russia may have been worry of issuing equity because of, e.g. fear of losing control over assets or a reluctance to commit to a greater transparency. But nowadays they are more aware of the benefits of equity listing both as a means to help the company grow and diversify.
- **Better conditions to sell equity.** Political and economical improvements in the country lead to re-rating of Russian assets to less riskier class and, hence, providing them with fairer value in comparison with the past.
- **High oil prices.** High commodity prices have generated additional profits to the oil and gas companies, thus creating higher enterprise value. Out of this shareholders are trying to monetize assets on the top of their value and, hence, get higher return on investments.
- **Political aspect.** Some shareholders are trying to monetize assets before the presidential elections in March 2008, thus securing themselves from political risks.
- **Payment mechanism.** Shares can be an effective instrument for acquisition financing, collateral etc.
- **High debt to equity ratio.** Most of Russian companies already have high debt to equity ratio, what in turn, disable them to raise funds on debt markets.

About ACP

Focus

ASSET CAPITAL PARTNERS (“ACP”) is an independent international investment advisory company providing financial services to businesses, governments and financial institutions with a focus on asset based industries (i.e. oil & gas, mining & metals, power, infrastructure, transportation and real estate). The company has a regional focus on Russia/CIS countries and is active in both local as well as inbound and outbound cross-border transactions.

Detailed information available at www.assetcapitalpartners.com.



ACP offers a wide range of investment banking and financial advisory services, particularly in the oil & gas, mining, power and infrastructure sectors:

- Financial advisory with regard to debt, mezzanine and equity
- Investment banking: mergers, divestiture and acquisitions (MD&A) services, IPO
- Private equity services, including fund management and direct equity investments

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