

Bulgaria and the Opportunities in South-Eastern Europe

A Private Equity Perspective

Valeri Petrov
Investment Director, Global Finance

Content

- Global Finance – Introduction
- Bulgaria – Macro Frame
- High Growth Sectors
- SEE – Region of Opportunities
- PE in Bulgaria and SEE

Global Finance - Introduction

- Leading private equity firm in SE Europe, established in 1991
- Headquartered in Athens with offices in Sofia and Bucharest
- Managing over € 700 million of equity investments in South East Europe through eight funds;
- Supported by reputable institutional investors - EBRD, IFC, AIG, EFG Group, Goldman Sachs, NBG, Alpha Bank
- Over 60 successful investments in the region in different sectors
- Exceptional investment track record consistently above the returns obtained on the stock-markets

Bulgaria – Macro Frame

- Consistent and sustainable growth – GDP up by 6% pa, which is 3 times the EU average
- Impressive macro discipline – high fiscal reserves; decreasing public debt
- NATO and EU member
- Critical industries (banking, telecoms) fully private and restructured by international owners
- Over 80% of GDP generated by private sector

Bulgaria – Macro Frame

- Stable and predictable political environment
- BBB+ credit rating (Fitch, S&P, JCRA)
- EUR 7 billion of FDI in the last three years
- Competitive operating costs and low taxes
- Low currency risk – BGN pegged to the Euro
- Increasing disposable income
- EU funds mainly for infrastructure projects under way

Tax and Legal Frame

- Solid legal framework in line with EU legislation
- Corporate tax 10% - one of the lowest in Europe
- Tax on dividends - 7%
- Tax free capital gains on traded securities
- 50% depreciation rate on investments in new machinery and equipment;
- Personal income tax of 24% max
- 0% tax on profit in more than 100 municipalities with high unemployment;

High Growth Sectors

- Retail Sales – more than 20% growth
- Financial Services
 - Consumer credits up by 31.8% in 2006 (17.6% of GDP)
 - Mortgage Financing grew up by 75,4% in 2006
 - Insurance income annual growth of above 25%;
- Telecom, IT, Media and Advertising
 - above 22% annual growth in TV, Radio and Internet media;
 - above 20% annual growth in mobile, cable and broadband;
- Real Estate – growing at a rate of 30 – 40% annually
- Construction and building materials driven by real estate
- Pharma & Healthcare above 50% annual growth

M&A Activity

- Ongoing consolidation in the media, financial services, IT, telecom, food production sectors
- Market entrance of multinational strategic players (Carrefour, Kaufland, Montupet, Alcoa, Generalli, EoN, EVN, Dalkia etc.)
- Privatization almost completed
 - 5,237 companies privatized;
 - 48 privatizations of majority and 250 of minority stakes remaining
- Recent M&A deals
 - KBC acquisition of 70% in DZI Insurance for EUR 185 m;
 - EFG acquisition of 74% in DZI Bank for EUR 158 m;
 - Privatization of DHCs Plovdiv (EUR 32 m), Varna (EUR 6.8), Rousse (EUR 85 m);
 - Privatization of national flag carrier Bulgaria Air (EUR 6.6 mln);



Bulgaria in a Region of Opportunities

- Region with total of 42 million people with combined GDP of \$450 billion
- Region's GDP per capita up more than 80% since 2000
- Increased flow of goods and labor encouraged by:
 - Geographic proximity, cultural and religious ties
 - Existing strong interdependence (businesses, M&A, trade and labor)
- Region offers rare combination for corporate improvement and top-line growth

PE in Bulgaria and South Eastern Europe

- Private Equity still at a relatively early stage however already plays a key role in boosting local and regional economic growth
- Clear need of expansion capital in growing economies
- Necessity for business innovations and for continuous strong investments in the region
- Technology upgrade/ Capacity building/ Transfer of know-how
- Improves corporate governance
- Supports Convergence to EU industry standards

PE in Bulgaria and South Eastern Europe

- Private Equity is one of the main sources of funding as alternatives still remain limited
- Capital markets - developing fast but liquidity still insufficient
- Local capital is not abundant
- Corporate debt markets at infant stage

Private Equity funds fill the gap created by the scarcity of funding sources

Type of PE Investments in the Region

- Significant role of expansion capital transactions
- Buy-outs – rapidly increasing in number and size
- Limited number of start-up and early stage investments
- Seed financing – almost does not exist in SEE
- Clear “equity gap” for early stage companies across the region

PE Opportunities

- BUYOUTS
 - Post-privatization diversified conglomerates looking to focus
 - Entrepreneurs reaching the limit of their capabilities in the face of a changing environment
 - Entrepreneurs looking to realize part of their wealth or wanting to focus on less risky asset classes (real estate) or on sectors which they consider more promising with less effort required (tourism/leisure)
 - Financial institutions with a NPL portfolio
 - Privatization opportunities – mainly in energy and infrastructure

Private Equity Opportunity

- GROWTH PLAYS
 - High growth sectors, where Bulgaria is catching up with the EU - retail, financial and other services
- CONSOLIDATION PLAYS
 - Sectors with many local players and a couple of multinationals – telecom, media, food & beverages, business services

EMERGING MARKET GROWTH AT DEVELOPED MARKET RISK*

	EU-15 Old Members	Bulgaria and SEE	Emerging Asia
GDP growth			
Pro-business environment			
Currency stability			
Quality of legal framework			
Transparency			
Corporate governance			

*Alpha Associates

South-Eastern Europe Fund

- An up to €350M mid market buy-out fund for South-Eastern Europe
- First closing at 200M in Feb 2006, final closing in May 2007
- Core countries: Bulgaria, Romania, Greece
- 8th Fund by Global Finance for the Region since 1991

Main Investment Focus

- Majority Control: companies with unutilized potential; controlling stakes; supporting professional management
- Regional growth: dynamic, extrovert companies; regional development or other expansion plans

Summary

- South-eastern Europe is a region of opportunity
- Economies are growing significantly (well above EU-15) in a stable environment with small business risk
- Attractive outsourcing destination
- Booming bank lending activity is not enough to sustain the growth and Private Equity is perfectly positioned to fill in the existing funding gap
- Global Finance is the leading Private Equity investor in the region with a proven investment track record with annualized returns of 49% and 2.6x invested capital

Thank You