



2nd annual Emerging Markets Private Equity Conference

Identifying Winning Businesses

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June 4, 2007
Moscow, Russia



Introduction – identifying winning businesses

- ACP overview
- Russia's compelling macro story
- PE targets emerging sectors of Russian consumer economy
- PE case study
- Importance of Due diligence
- Challenges and risks

My sixteen year perspective on PE in Russia



ACP

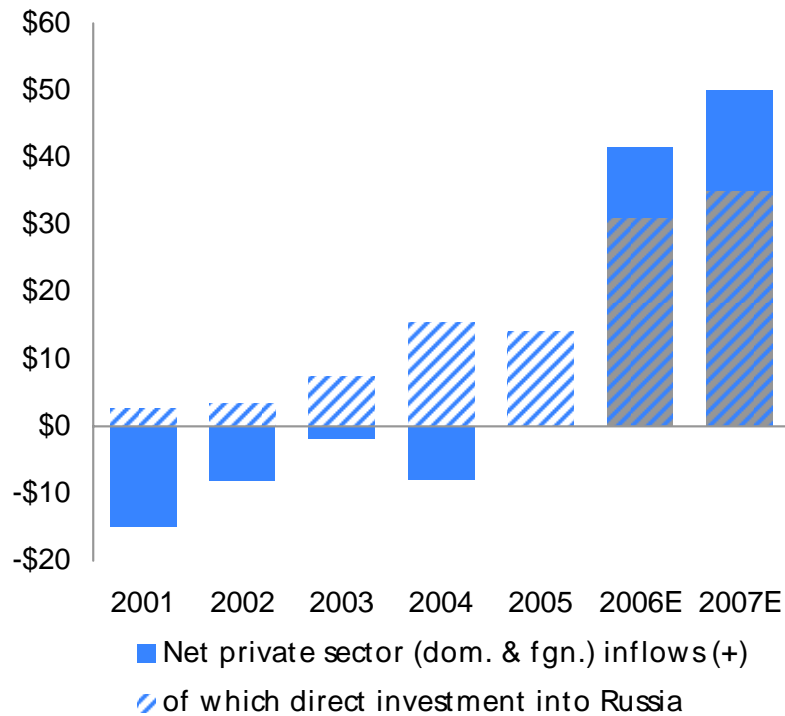
- Moscow based private equity and real estate investment firm
- Three funds with US\$651 m under management
- 19 Investment professionals, 40 total staff; satellite office in Kiev
- LPs include EBRD, IFC and leading institutional and private investors from US, Europe, Asia and Middle East

	Private Equity Fund	OPIG-Great Circle Fund	Marbleton Property Fund
Focus:	Consumer and domestic economy	Maritime Infrastructure and logistics	Real estate
Region:	Russia, Ukraine, CIS	FSU, Eastern Europe and Mediterranean	Russia, Ukraine, CIS
Amount:	US\$200 m	US\$180 m	US\$271 m
Partner:	NA	Great Circle Capital (US) and Probel (Belgium)	JER Partners (US)
Final close:	February 2007	April 2005	June 2007

Russian macro – why are we so confident?

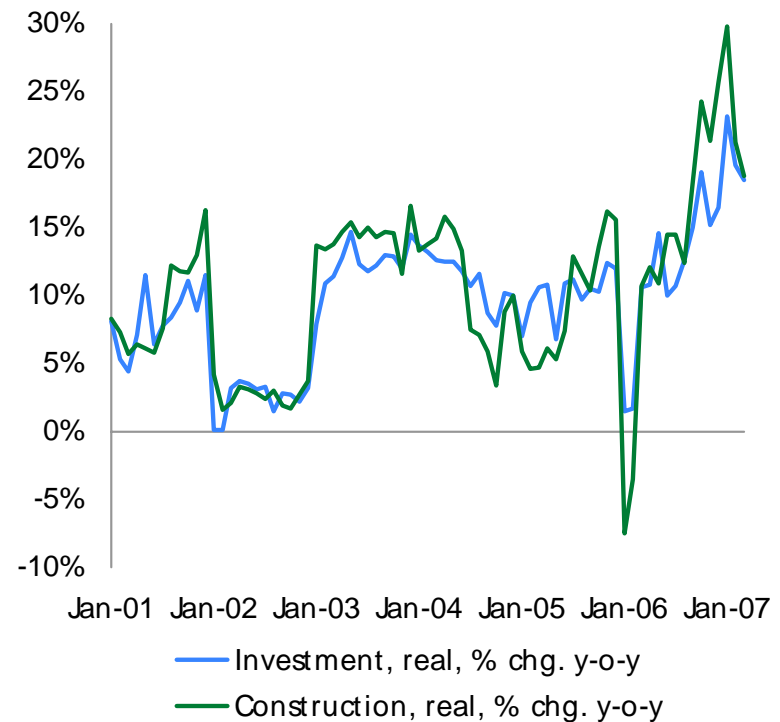
- Capital inflows, not flight; investment & construction growth

Net private sector capital inflows (of which FDI), US\$ bn



Source: CBR, UBS estimates

Investment & construction growth, %



Source: Rosstat

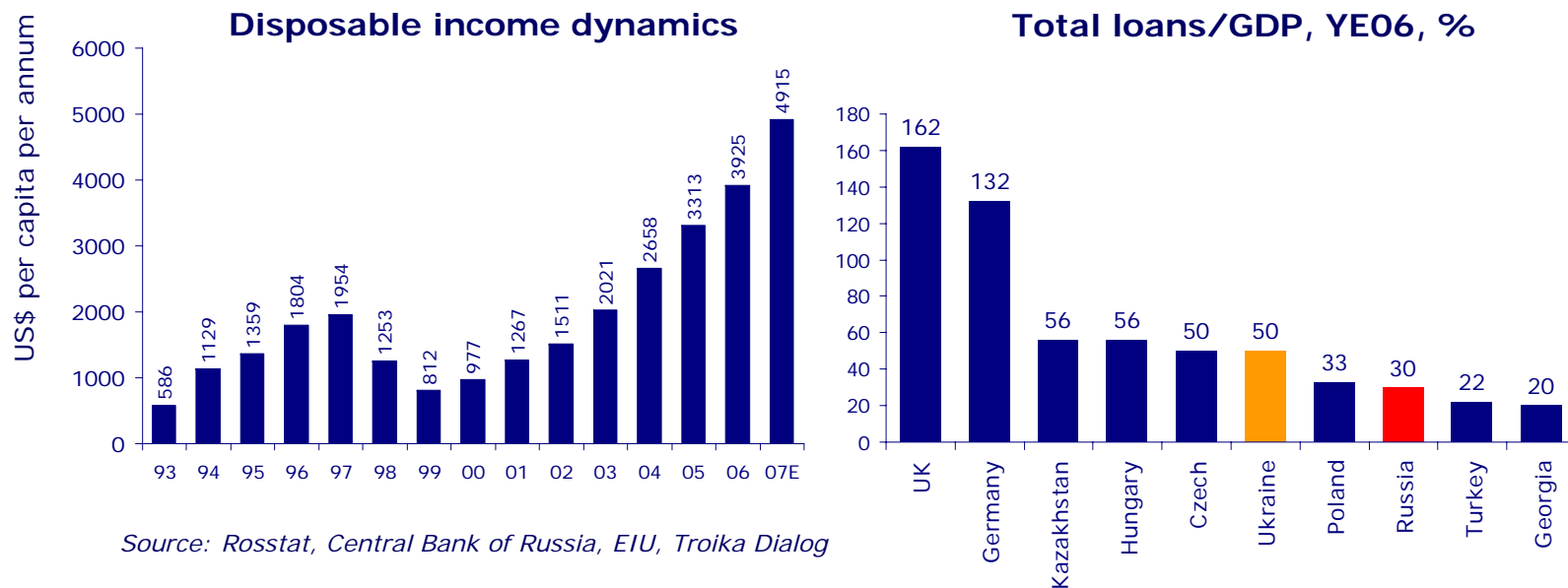
Russia – mid-to long-term investment views

- Short of a policy change, political errors or a global slump ...
 - A couple of decades of strong growth – 6-7% in real terms; 10-15% in US\$ terms
 - Inflation slowly coming down; ruble appreciating against its \$ & € basket (we see it 15-20% undervalued at \$50/bbl long-term; productivity growth differential should see that increase in the mid-term)
 - Domestic economy the main beneficiary, though export sector should become internationally competitive in resources/basic industries
 - Companies are underleveraged, presenting an opportunity for WACC reduction
 - 15-20% return on capital and in the stock market, other things equal
 - A time for business building; private-equity; equity; and ruble debt
- Moscow & much of Russia to be one big building site ...

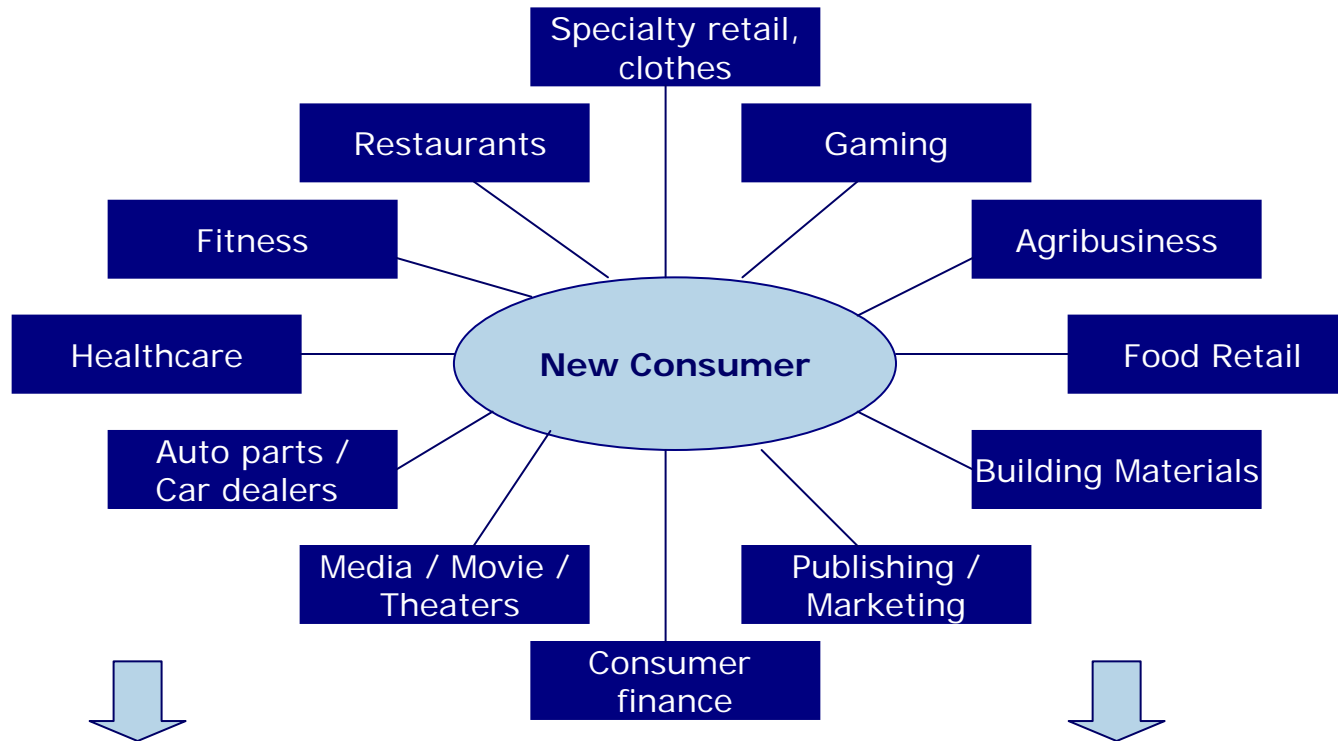
Source: UBS

Russian economic growth makes citizens richer

- Nominal per capita income grew 24% in 2006
- Retail sales reached US\$318 bln in 2006 vs US\$245 bln in 2005, ranking Russia the second most lucrative and twelfth largest retail market in the world
- Financial sector expansion goes on: Mortgage finance joins an already booming consumer credit and car finance market (mortgage loans in 2006 had 356% YoY-growth)



ACP investment strategy



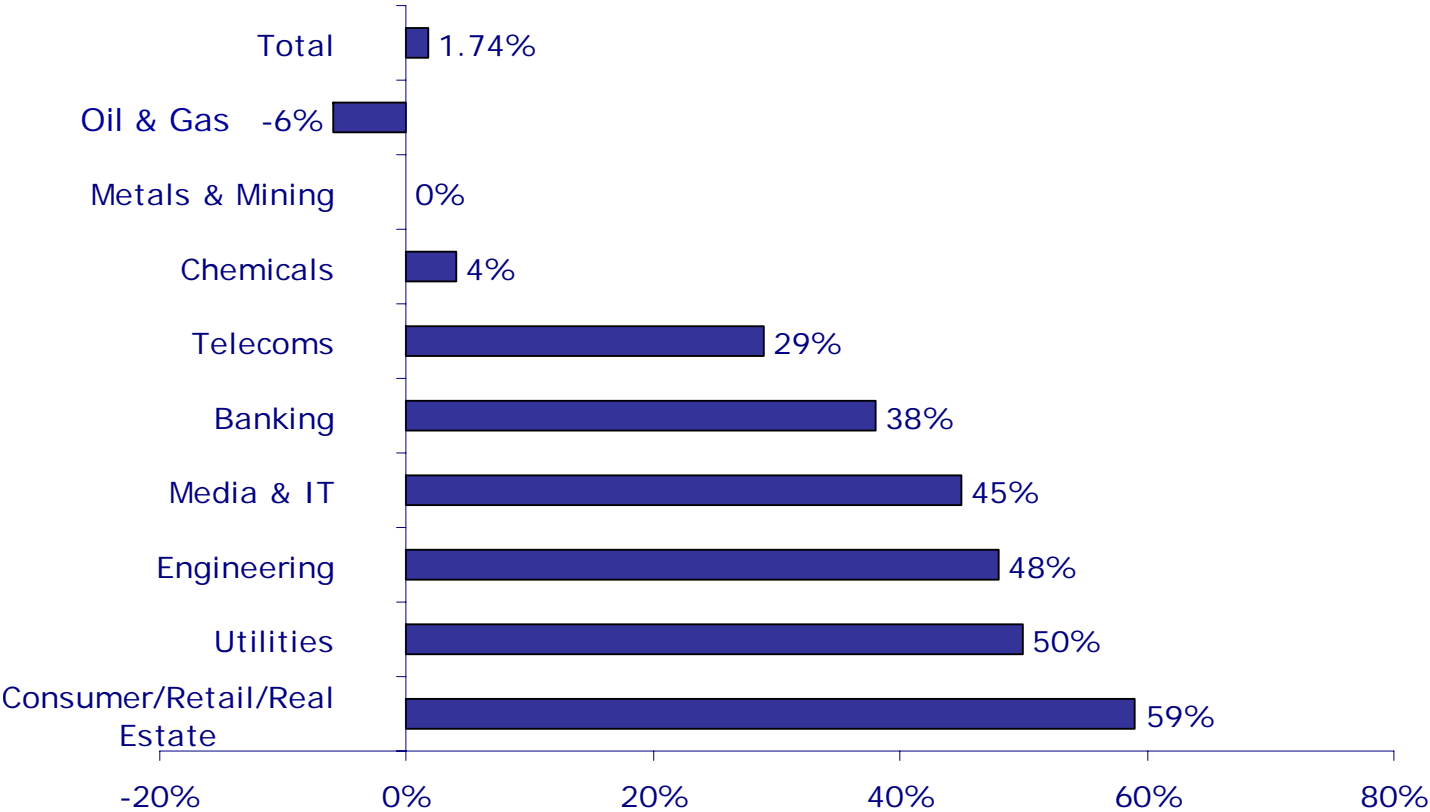
Investment Thesis:

- Ongoing benefits of economic growth
 - increasing consumption
 - confidence in the future

Investment Strategy:

- Capital and support to companies targeting new consumers

PE strategy – focus on sectors with strong earnings growth

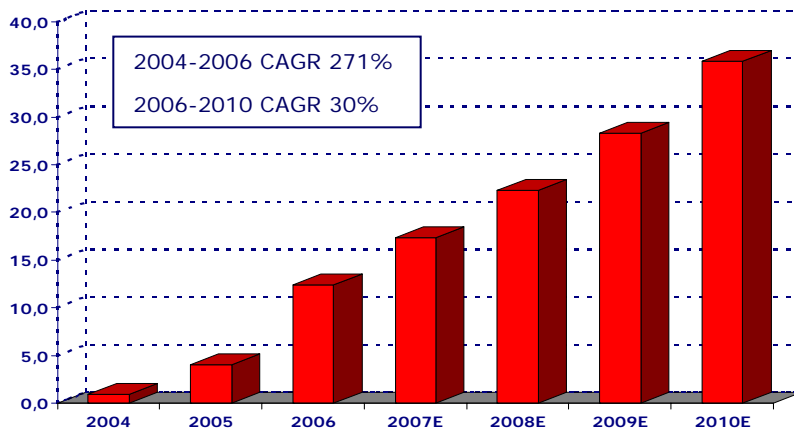


Source: Renaissance Capital estimates, 2006

Russian mortgage market – gathering momentum

- New mortgage origination around US\$2.5 bln in 1H2006, accelerated to US\$6 bln in 2H2006, in part due to a slowdown in real estate prices in 4Q2006
- Russia still lags behind Ukraine and Kazakhstan, Eastern Europe and other emerging market peers in mortgage lending per GDP

Cumulative mortgage lending, US\$ bln

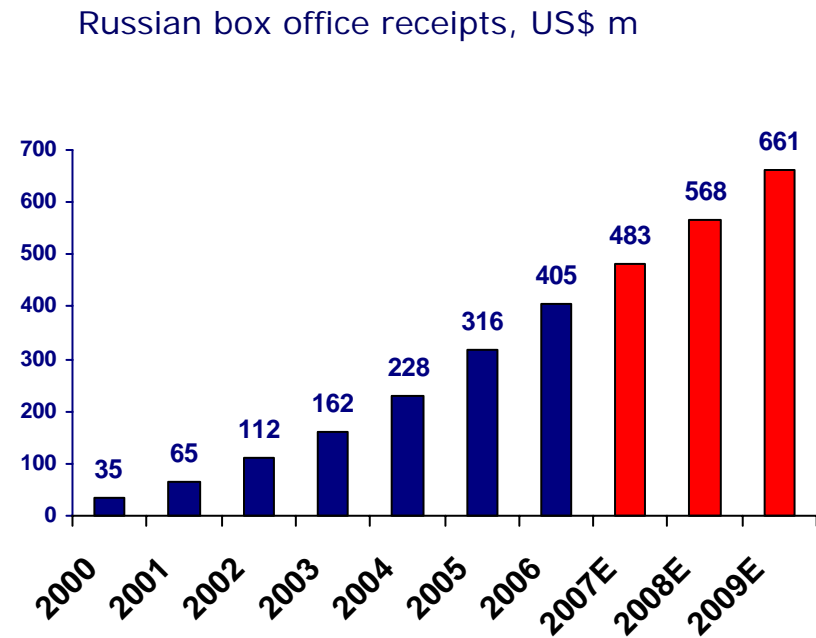
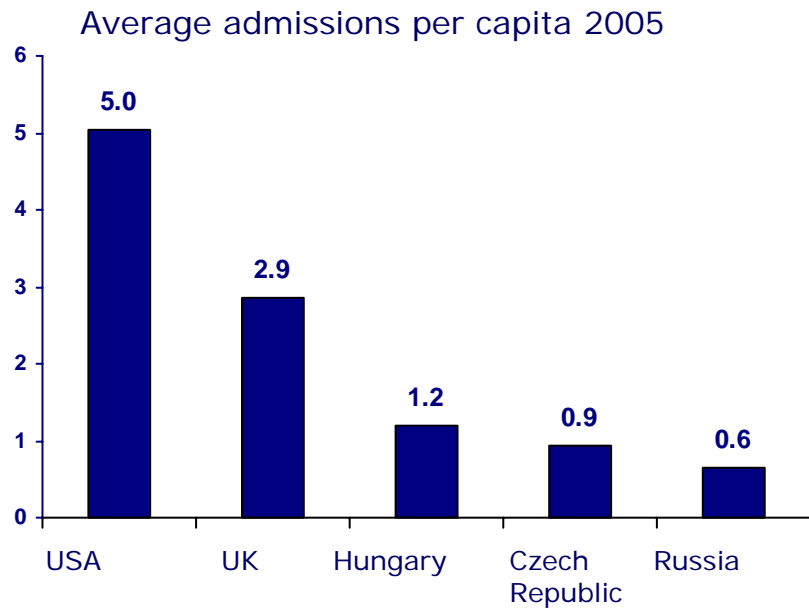


Source: RBC, Alfa Bank research, CBR

Financial Data	2004	2005	2006
Retail lending, US\$bln	22.0	41.0	78.4
% growth, YoY	110%	86%	91%
Retail lending, % GDP	4.8%	5.4%	8.0%
Mortgage, US\$ bln	0.9	4.0	12.4
Mortgage, % retail lending	4%	10%	16%
Mortgage, % GDP	0.2%	0.5%	1.3%
Car loans, US\$ bln	2.5	4.5	9.0
Car loans, % retail lending	11%	11%	11%
Car loans, % GDP	0.4%	0.6%	0.9%

Source: Company data, Alfa Bank research

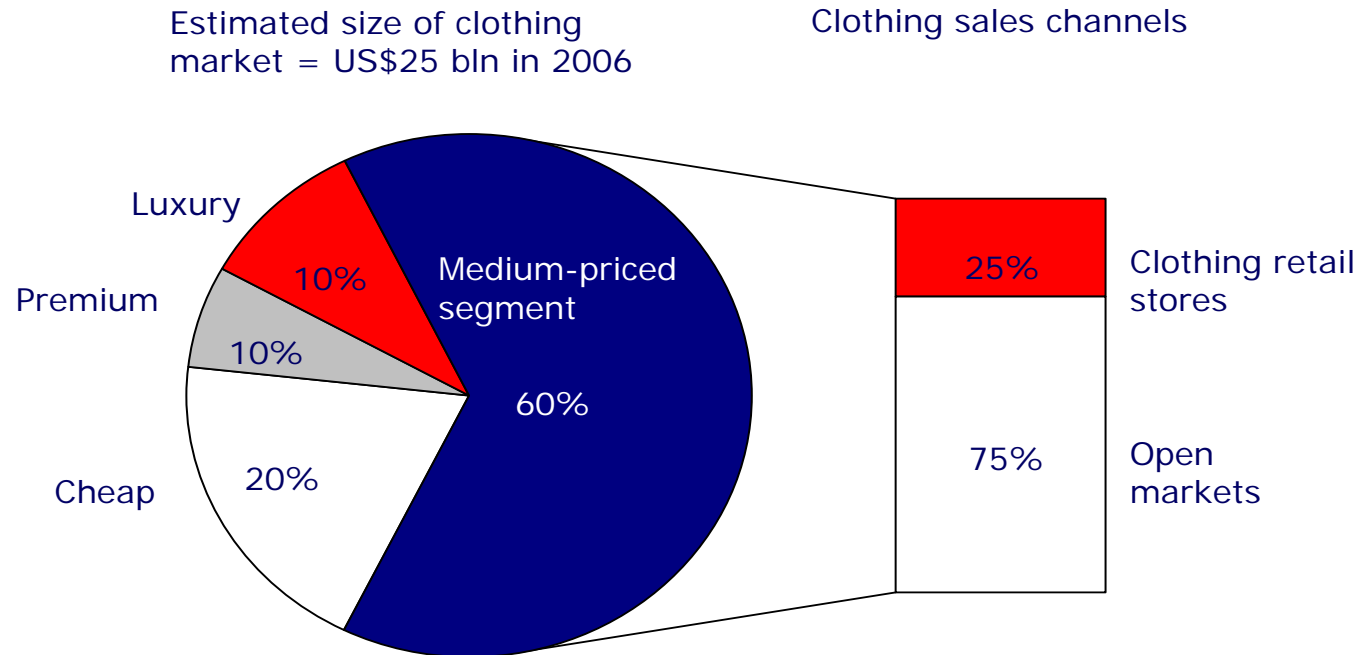
Russian cinema – remarkable box office growth since the late 90s



- Russian box office receipts grew at CAGR 51% between 2000-2006
- Forecast to grow at CAGR 18% through 2009
- Admissions per head still low relative to peers

Source: ScreenDigest, Media Salles, Dodona, NATO (National Association of Theatre Owners)

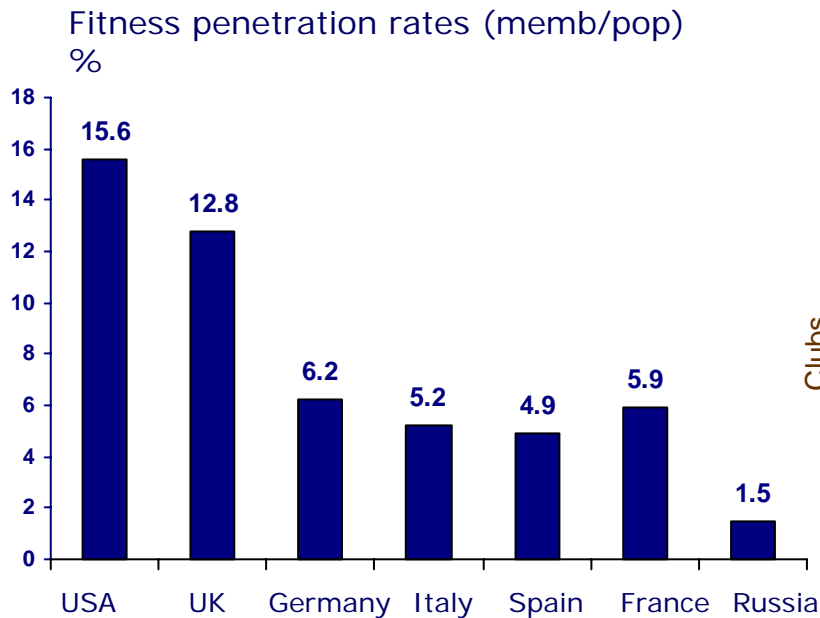
Russian clothing retail – dressing up



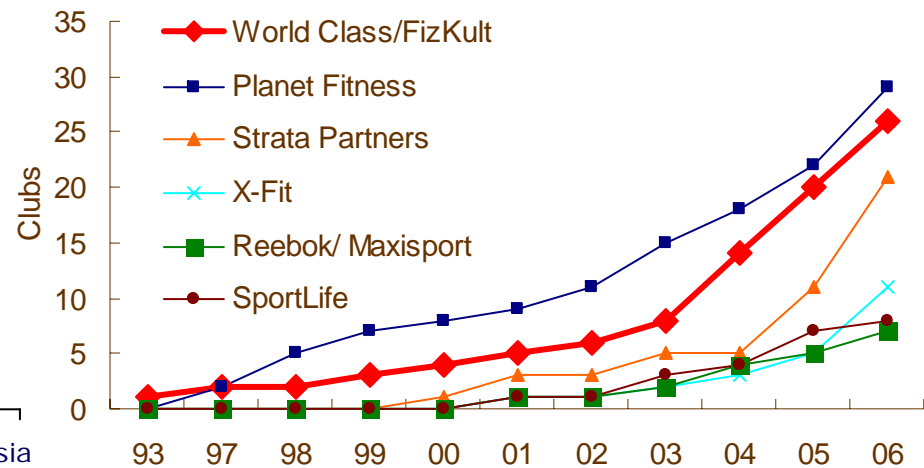
- Historical market growth 12-18% pa; forecast to grow at 20%+ through 2010
- Shift towards organized retail - share of sales through retail stores to increase by 10% pa
- Russians prefer to spend discretionary income on clothing (71% vs. 41% Europeans)

Source: Fashion Consulting Group, GFK Rus, AC Nielsen, Press searches; ACP estimates

Fitness – growth to continue



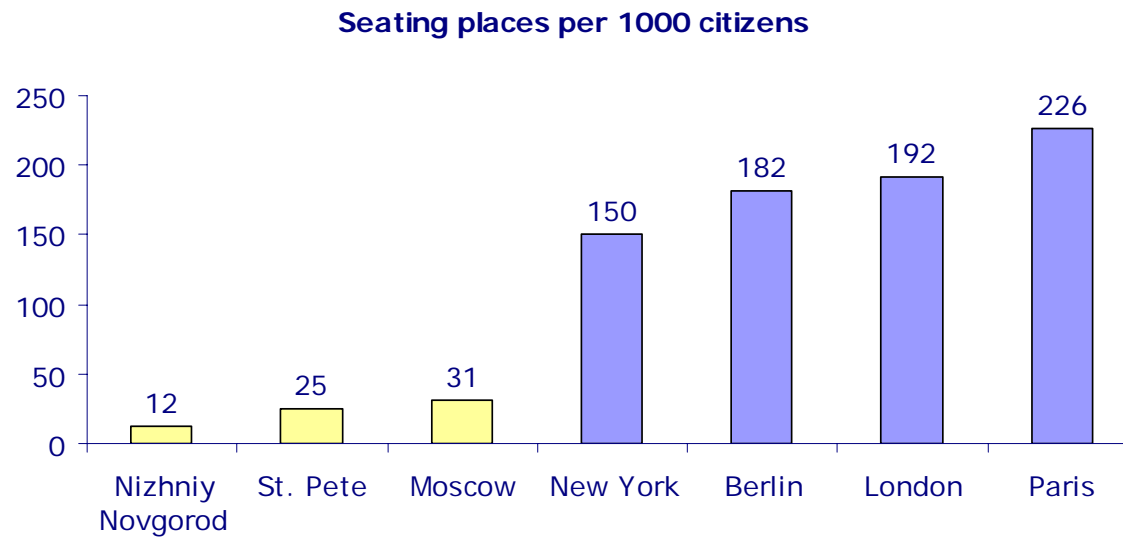
Expansion of largest Russian fitness players since 1993



- Fitness market estimated at US\$450 m in Moscow and US\$800-\$1,000 m in Russia in 2006
- Market is poised for growth as current penetration levels significantly below Western peers
 - Target penetration rate for a city like Moscow (currently 2%) estimated as 10%-15% (penetration rate in London is 26%)
- Market leaders have been growing at 25%-35% pa

Source: IHRSA, Bureau of Economic Analysis, Troika Dialog, World Class, ACP estimates

Russian casual dining market

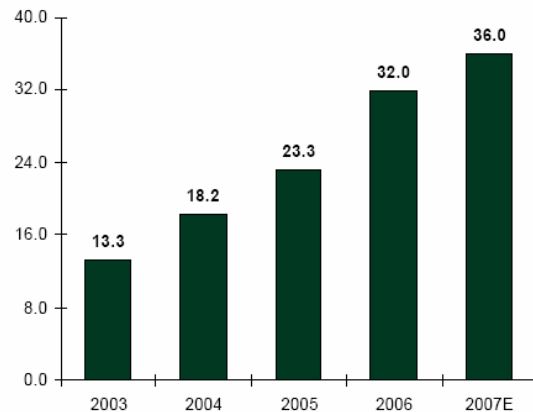


Source: RBC, Galitzine Consulting, Vedomosti

- Moscow casual dining market size estimated at US\$1.0-1.3 bln in 2006
- Medium-term growth expected at 40% + CAGR

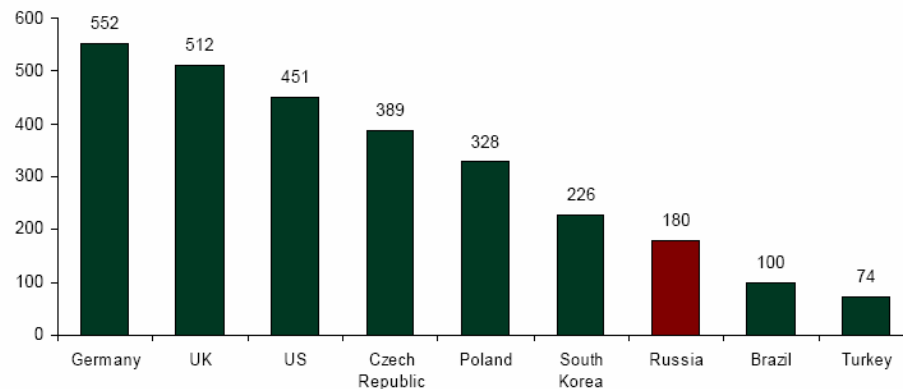
Russian automotive market – growing and changing

Russian car retail market size, US\$ bln



Source: PwC

Car density in selected markets 2005, cars per 1,000 people



Source: Global Insight, Rosstat

- Russian auto market has been growing rapidly, 2003 – 2006 CAGR 34%
- Market still far from saturation, increasing wealth of the population and enhanced access to consumer borrowing opportunities drive market growth
- Low car density and comparatively old age of cars (more than 50% are over 10 years old) drive purchasing

Russian logistics market – servicing the growth

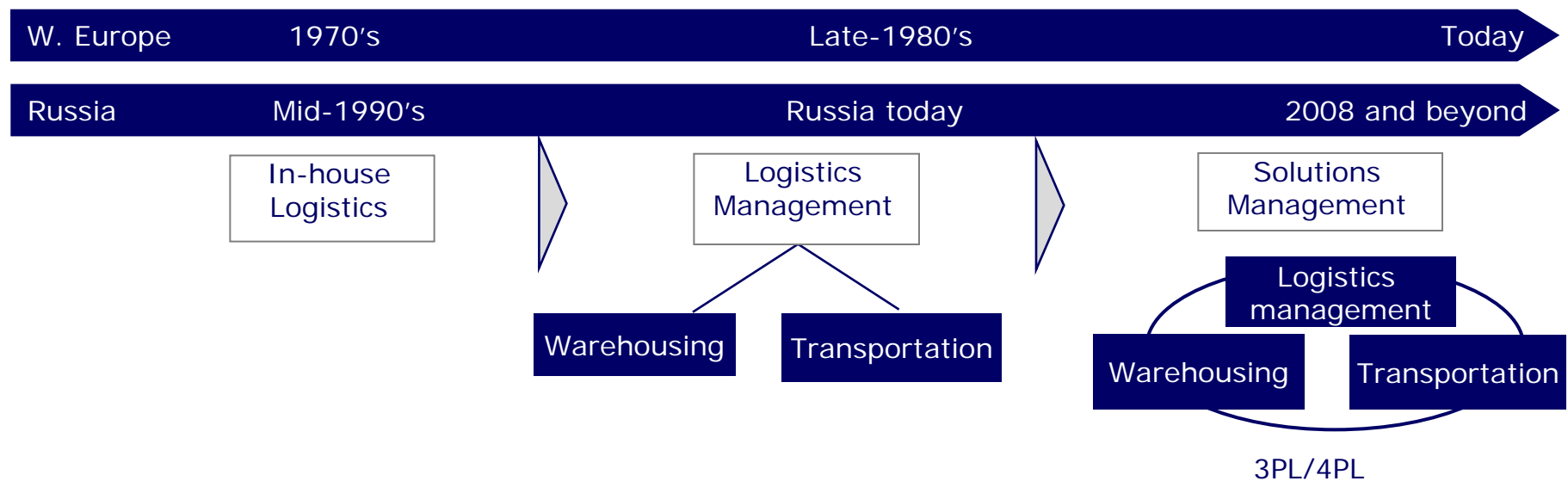
- Several factors drive rapid growth in next 5 years
 - Expected retail growth 15-18% through 2010
 - Construction and housing boom will generate additional demand (housing market to reach 80m sqm from 51m in 2005)



- Transportation and logistics market was estimated at ~US\$36.5 bln in 2005, with US\$7.7 bln (21%) accounting for outsourced logistics
- Retailers will increasingly outsource their logistics needs, looking for cost savings through efficient distribution and supply chain management
- Contract logistics is still a very small portion of the market, estimated at US\$450 m
- Government plans to make significant investments into transportation infrastructure through 2010
 - Road capacity is expected to increase by 27,000 km through 2010
 - Capacity of seaports projected to double by 2010 to reach ~600m tons p.a.
 - Largest airports (primarily in Moscow) continue to be converted into transit hubs
- This is likely to stimulate growth in transport

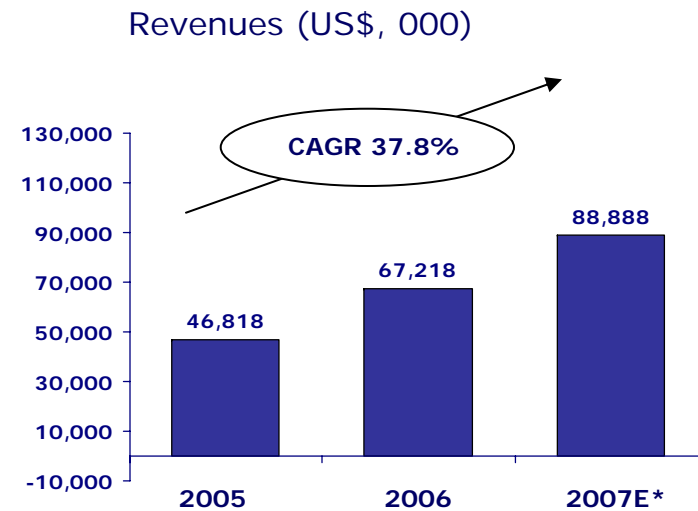
Russian logistics market lags behind Western peers in development

- The same developments in supply chain management which took decades in Western Europe are now occurring in Russia at a very fast pace



PE case study – Russian Logistic Services

- Investment closed June 2006. 3 PL provider with focus on FMCG market
- Offices in 18 cities in Russia and 2 in Kazakhstan
- Existing second-tier warehouse facilities in Moscow, St. Petersburg, Novosibirsk, Samara, Yekaterinburg and Khabarovsk
- Blue chip clients generate approximately 55% of turnover and include Nestle, Unilever, Auchan, Pepsi, Gillette, Kraft and Coca-Cola
- Use of investment Proceeds: leasing and fitting out 105,000 sq meters Class A warehouse space in Moscow and Russian regions and trucks



**Excludes the revenues and expenses on new warehouses, which will open in 3Q2007*

ACP case study – logistics sector

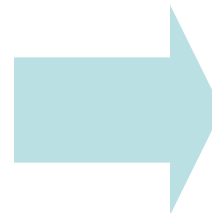
Due diligence	Duration
Legal	3-4 weeks
Financial	3-4 weeks
Commercial	In house
Background checks	2-3 days
Customer interviews- onsite/conf call	1 week
Site visits	2-3 days
Cost	US\$300,000

Due diligence – more than a necessary evil

- Due diligence process can include legal, financial, environmental, commercial, people, and industrial/operations
- Senior professionals should manage and control the process, create urgency and demonstrate importance
- Results should factor directly into final valuation, agreements, risk sharing and governance
- Use due diligence results to create a
 - joint business plan
 - shared vision
 - milestones for management
- During process, make time to get to know/underwrite the partner, management, build relationships
- Mindset makes a difference
- Key thing to know: What kind of problems are you prepared to take on?

Challenges competing for deals – communicating your value proposition

- New capital/liquidity
- Local resources
 - On the ground
 - Alfa Group resources
 - Market knowledge, relationships, synergies
- International experience/deal structuring
- Strategic development
 - Focus on value drivers
 - Help affect change
 - Recruitment of senior management
- Improve governance, financial discipline, transparency
- Develop and drive exit:
 - M&A
 - Strategic partnerships
 - IPO
 - Recapitalization



**It is not just
about the price of
your money**

Risks – Large exciting PE opportunity in Russia is still evolving and challenging

