



**Key Factors for a Successful Private Equity Fund:
People, Strategy, Market, Product**

April, 2005
Zurich

3 Major Success Factors



PEOPLE

PEOPLE



"No, the computers are up. We're down."



"Keep up the good work, whatever it is, whoever you are."

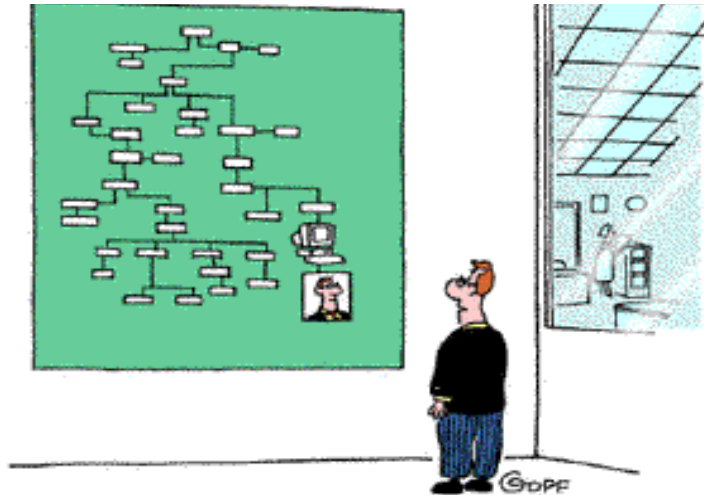
PEOPLE

Right mix and evolution of skills

First Fund	Second Fund	Third Fund
<ul style="list-style-type: none">□ PE Background□ I-Banking Skills□ Big Four Alumni□ Consulting Background	<ul style="list-style-type: none">□ Big Four Alumni□ Portfolio Companies Industries Background□ Consulting Background□ Legal Background□ PR Background□ IR Background□ PE Background□ I-Banking Skills	<ul style="list-style-type: none">□ I-Banking Skills□ Big Four Alumni□ Portfolio Companies Industries Background□ Consulting Background□ Legal Background□ PR Background□ IR Background□ PE Background□ GR Background

Right mix of levels in the organization

IB/Consulting Structures

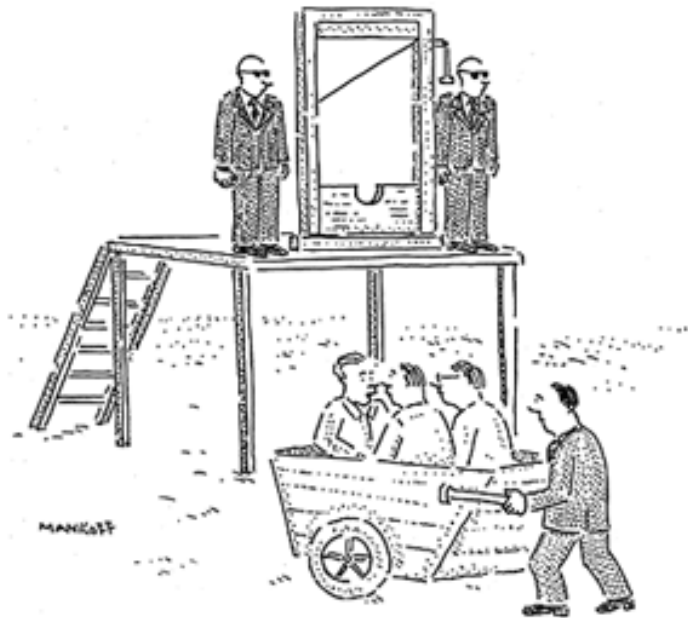


"Say! When did I start reporting to my computer terminal?"

PE organizational charts

- o Partners / Senior Professionals
- o Investment Officers / Junior Professionals
- o Interns

Right motivation



"I don't know about you guys, but I'm very disappointed in the severance package."

PE compensation approach

o Cash Compensations

Higher than Big 4 but can't compete with IB Sector

o Bonuses

Less dependent on year end result

o Carried Interest

Carry early on as Russia use to be a short term planning country

Right cultural mix



*"We are all of the same opinion, Ms. Beckwith.
What's more, we look like America."*

Russian and International experience is a core sales message

o Russian Language and Experience

*Russian speaking PE team as a must,
Russian business experience for
expats as a plus*

o International Exposure

*International experienced team with
proven contacts and success stories is
a part of Fund's success*

Capital nature and team skills are major strategy drivers



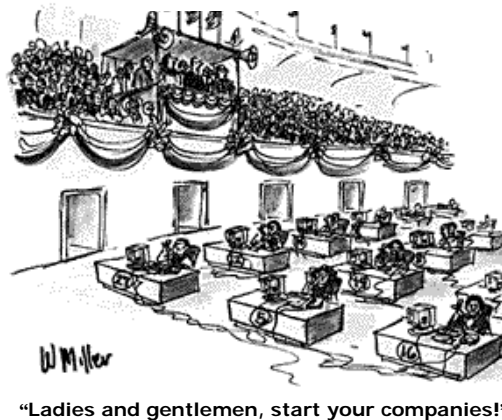
Expansion Capital Teams:

- o *entrepreneur driven*
- o *Russian/Western know-how as well as networking opportunities*
- o *Mostly sponsored by International Private and Institutional Investors*
- o *Lower risk expectations/higher entry multiples*



Venture Capital Teams:

- o *venture/entrepreneur driver*
- o *Russian/Western know-how*
- o *Capitalize on exits to Western VC markets/western strategists to step into Russian market*
- o *Extremely high risks and rewards expectations*



Turnarounds Teams:

- o *Industry specialization and know how as a must*
- o *Merge and consolidation play*
- o *Mostly sponsored by Russian Private Investors*
- o *Lowest entry multiples/average risk returns assuming local know how in place*

Adding value is a key

Your strategy in Private Equity depends on your view of the

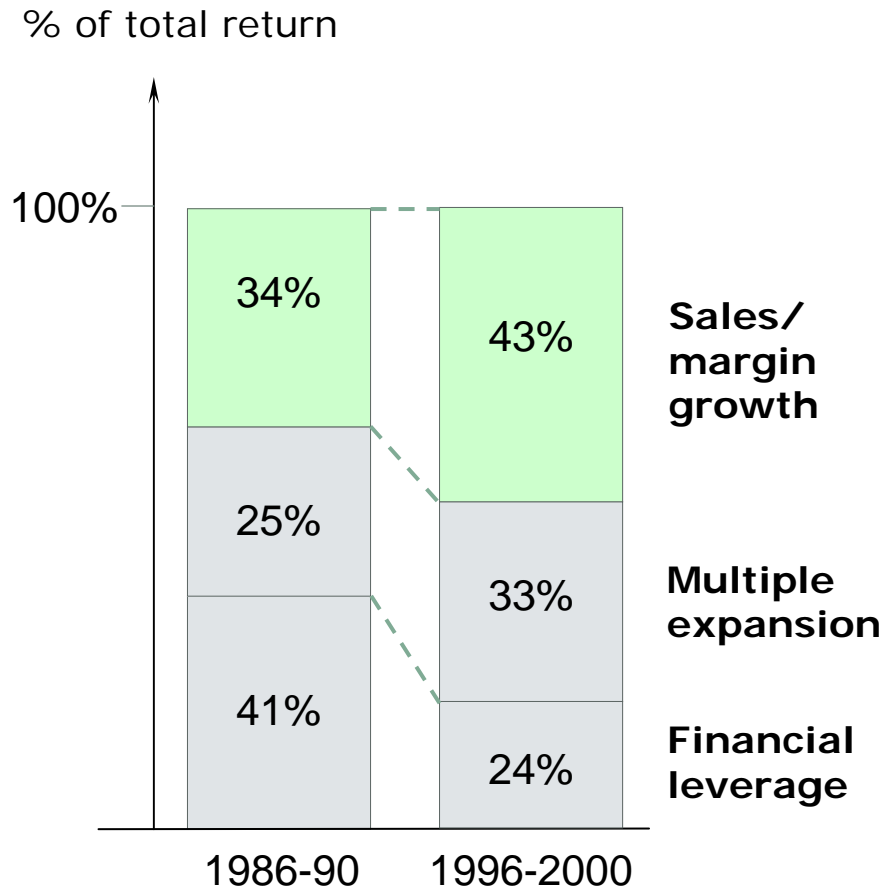
Value Creation Process



C. Barroti:

"No, Hoskins, you're not going to do it just because I'm telling you to do it. You're going to do it because you believe in it."

Changing sources of return



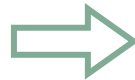
- Future development?
- PE investors role?

Non-monetary contribution

- ↓ General coaching
- ↓ Corporate transformation
- ↓ Networking
- ↓ Decision making process



Deal sourcing in our part of the market is to a large extent dependent on the ability to present the non-monetary part of PE to entrepreneurs who are relatively new to the concept of PE



To be convincing an entrepreneur may involve:

- ↓ An investor base with relevant & accessible skills
- ↓ Hands-on experience in building and managing businesses in Russia
- ↓ References among peers. Happy entrepreneurs in the portfolio who can vouch for you.

Russian market analysis – another strategy driver

Deal Size Analysis

- o Lots of small projects (<5 Mio USD)
- o Enough mid-sized deals (5-15 Mio USD)
- o Lack of large transactions (>20 Mio USD)

Deal Type Analysis

- o Lots of Pre IPO deal: *but expensive and difficult to get in*
- o Many mid-sized deals: *but needs proprietary deal flow and balanced portfolio approach*
- o Cheap distressed assets: *most of them targeted by private Russian capital*
- o Post privatization buy-outs: *not attractive until substantial leverage available*
- o LBO/LBI: *interesting but lack of teams and little leverage available*



"Where do you want us to start, Chief?
Our expansion plans or our bankruptcy plans?"

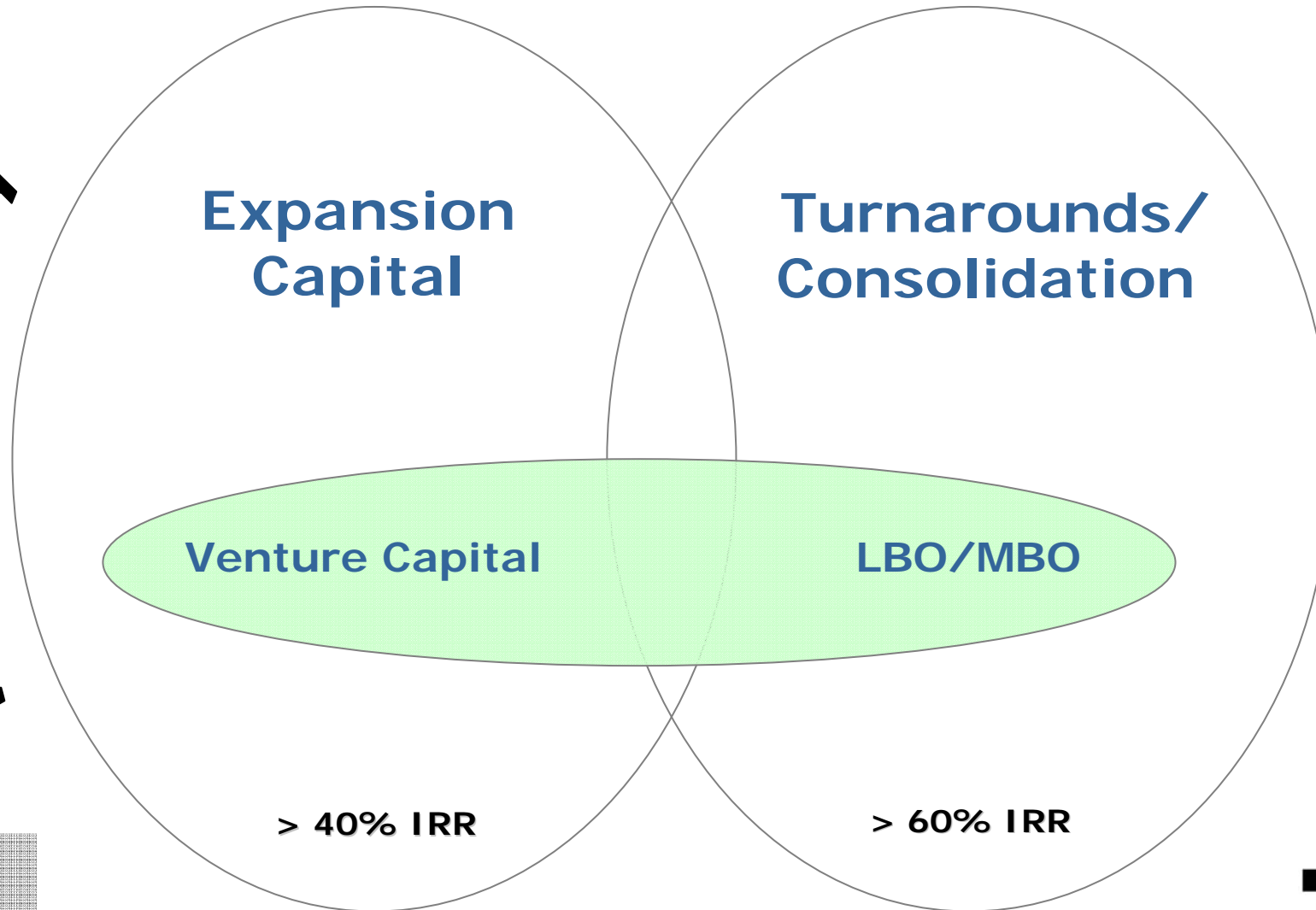


- **Best Strategy mainly based on your team's core skills and fund's capital nature**

New products to emerge in a bigger scale

Western Money

Russian Money



Hedge schemes are welcomed



Hedge your downside and be open for upside as much as possible

- o Ratchet Mechanisms
- o Convertible structures
- o English law and investor's protection rights

Although the major success factor....



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