

Trimming the sails
Central Europe Private
Equity confidence survey



PE professionals in Central Europe are adapting to the changed environment, trimming their sails to successfully identify and act on new opportunities with heightened confidence.

This publication contains general information only. The publication has been prepared on the basis of information and forecasts in the public domain. None of the information on which the publication is based has been independently verified by Deloitte and none of Deloitte Touche Tohmatsu Limited, any of its member firms or any of the foregoing's affiliates (collectively the "Deloitte Network") take any responsibility for the content thereof. No entity in the Deloitte Network nor any of their affiliates nor their respective members, directors, employees and agents accept any liability with respect to the accuracy or completeness, or in relation to the use by any recipient, of the information, projections or opinions contained in the publication and no entity in Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies thereon.

Introduction



Welcome to the latest edition of the Deloitte Central Europe Private Equity Confidence Survey. This is a key Deloitte publication that we have issued twice a year since its launch in 2003. Through the consistency of questions and matrices across so many years, it provides a uniquely accurate map of the changing levels of confidence among the region's PE professionals through all the ups and downs of recent economic history.

In the last issue in October 2010, I introduced you to the era of the 'new normal', based on trends charted since the first signs of recovering optimism ushered in a new era of stability.

In this issue, I can go a step further. That optimism about the market conditions likely to prevail over the next six months has now reached its highest level of any time since the pre-crisis days of April 2007, doubtless driven both by respondents' personal experience of increasing activity and by the strong GDP growth apparent in countries like Poland, the Czech Republic and Slovakia.

So, are we on the verge of a powerful new era of deal-making? The signs are encouraging, with significantly more PE professionals expecting to buy more than they sell in the next few months, and 77% planning to spend the majority of their time focusing on new investments. Indeed, the Investments section starting on page 11 of this report highlights some large deals which suggest we might already be entering such an era.

One factor in this report that I find particularly interesting is the significant rise in the proportion of professionals expecting the most competition among investors to be for growing medium-sized concerns. At 49% of the sample, this is the highest proportion we have ever recorded. So while in the last survey 74% were predicting most interest to be in defensive, market-leading stocks, there now appears to be a stronger appetite for risk and growth.

It is also interesting to note that the strengths of manufacturing and food & beverage businesses are attracting the attention of almost half the sample, while technology, media and telecommunications (TMT) attract less investor interest in comparison to previous years.

The results of the survey show that PE professionals in Central Europe are adapting to the changed environment, trimming their sails to successfully identify and act on new opportunities with heightened confidence.

Garret Byrne
Partner
M&A Transaction Service Leader
Central Europe

May 2011

Overview

Key findings

- Survey findings indicate that gradual economic recovery is reflected in the attitudes and expectations of the CE region's PE professionals
- More respondents than in October 2010 now either expect the economic environment to remain the same or to improve
- Confidence levels are now at their highest since the peak of April 2007, in line with those last experienced before the crisis
- Identifying new investments will be the primary focus of PE practitioners over the next six months
- For 74% of the respondents, there is a strong focus on the Visegrad Four (Czech Republic, Hungary, Poland and Slovakia) for investment opportunities
- Manufacturing and Food & Beverage are the two most attractive sectors for new investment

Central European Private Equity Index

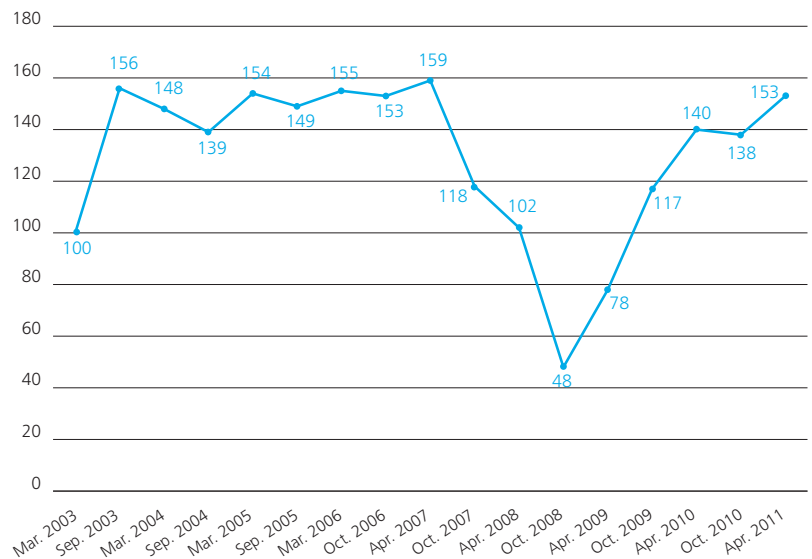
The Index has risen by 15 points since October 2010 to 153, its highest level since the pre-crisis days of April 2007.

The general sense of optimism reflected in this edition of the Index reflects the positive trend that commenced after its low point of October 2008 (when it plummeted to 48). It also shows a sharp improvement over the preceding period from April to October 2010, when the Index showed a very slight decline.

There is a clear expectation of a forthcoming increase in market activity levels during the months to come, with 98% of respondents expecting these either to grow or to remain the same.

Similarly, there is an anticipation of further improvements in the overall economic climate. Respondents expect to buy more than they sell over the next six months, and 77% plan to spend the majority of their time focusing on new investments.

Central Europe PE Confidence Index



For 74% of the respondents, there is a strong focus on the Visegrad Four (Czech Republic, Hungary, Poland and Slovakia) for investment opportunities. This is very similar to the findings of the April 2009 survey, highlighting that confidence in the region remains stable. Approximately 80% of the deals included in our investments section took place in these countries.

Interestingly, there has been a leap in the proportion of those PE practitioners expecting the highest competition for new investment opportunities to be in medium-sized growing companies (up from 26% in October 2010 to 49% now). This suggests a growing appetite for risk as more investors indicate their eagerness to focus on growing businesses.

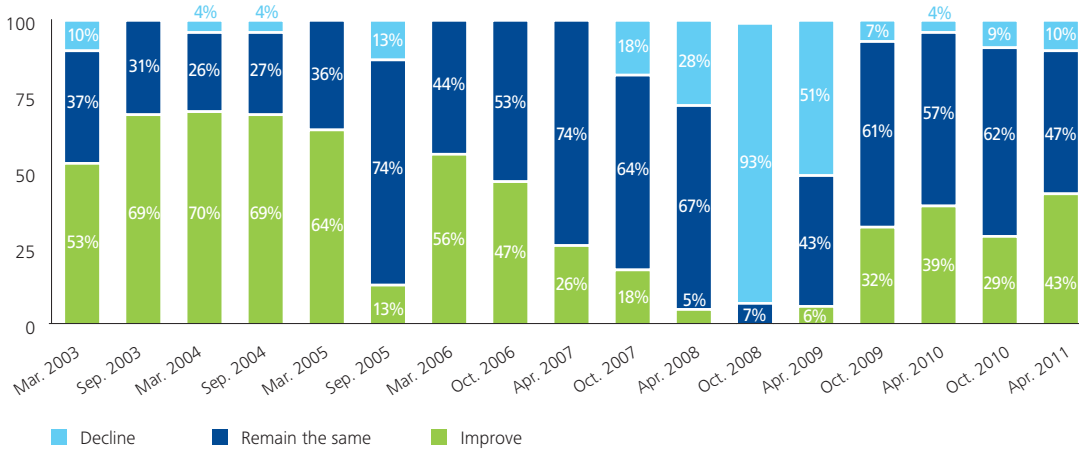


Survey results

Survey results

Economic climate

For this period, I expect the overall economic climate to:

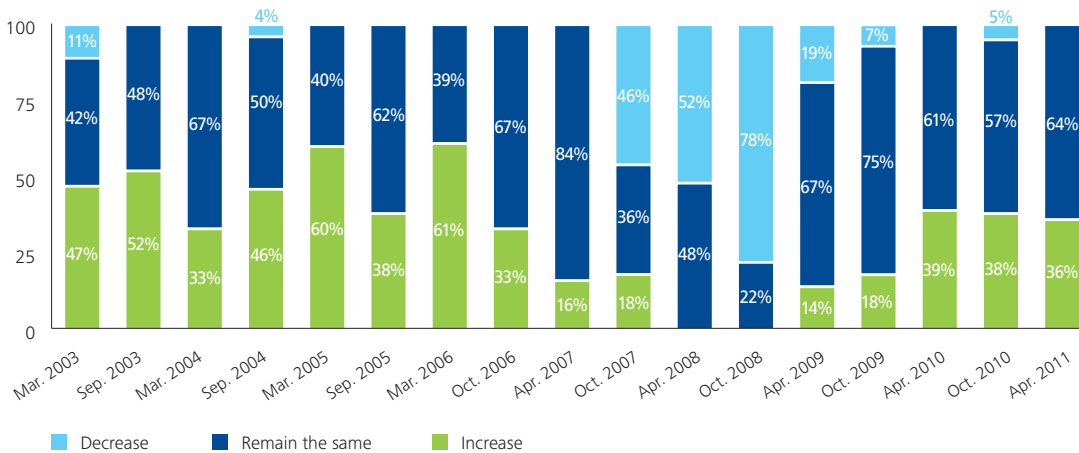


43% predicting an improvement is the highest level since October 2006 – well before the advent of the financial crisis. With 90% foreseeing either improvement or no change, this is an overwhelmingly optimistic outcome that reflects the real GDP growth

expectations of Central European countries for 2011 including Poland (4.2%), the Czech Republic (2.0%) and Slovakia (3.3%). Source, The Economist Intelligence Unit (EIU).

Debt availability

For this period, I expect the availability of debt finance to:

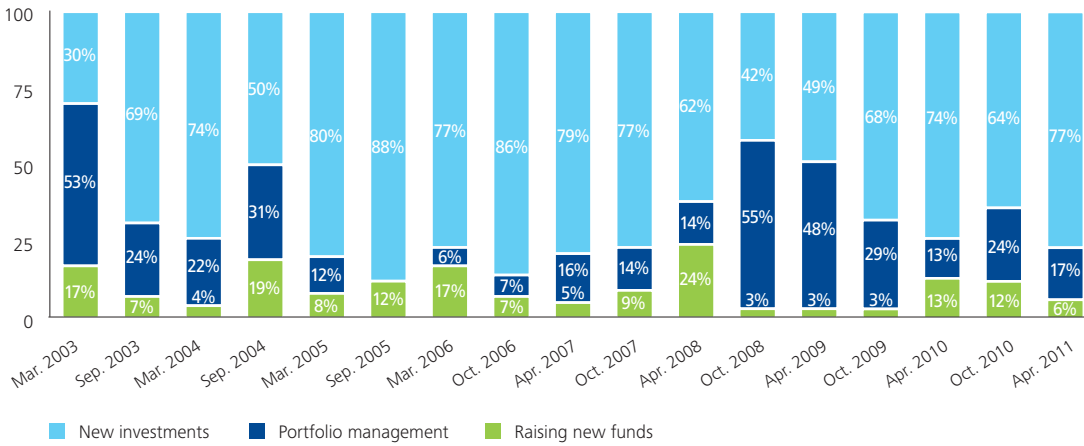


With no respondents expecting a decline in the availability of debt finance, the overall response is marginally more positive than in October 2010. However, expectations have been relatively stable over the last three

reports, signalling the confirmation of a return to a stable debt market, and in major contrast to the response of October 2008.

Investors' focus

For this period, I expect to spend the majority of my time focusing on:

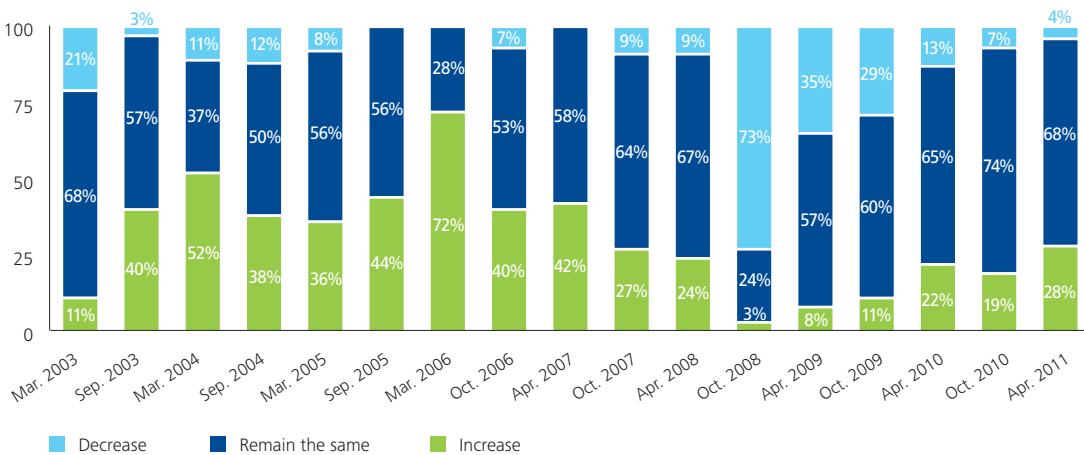


77% of respondents (the highest proportion reported since April 2007) are expecting to focus primarily on new investments as a result of more positive overall market expectations and better debt availability.

The significant 13% rise in the six months since October 2010 suggests an increased appetite for deals, which in turn should lead to an acceleration in the number of transactions completed.

Size of transactions

For this period, I expect the average size of transactions to:

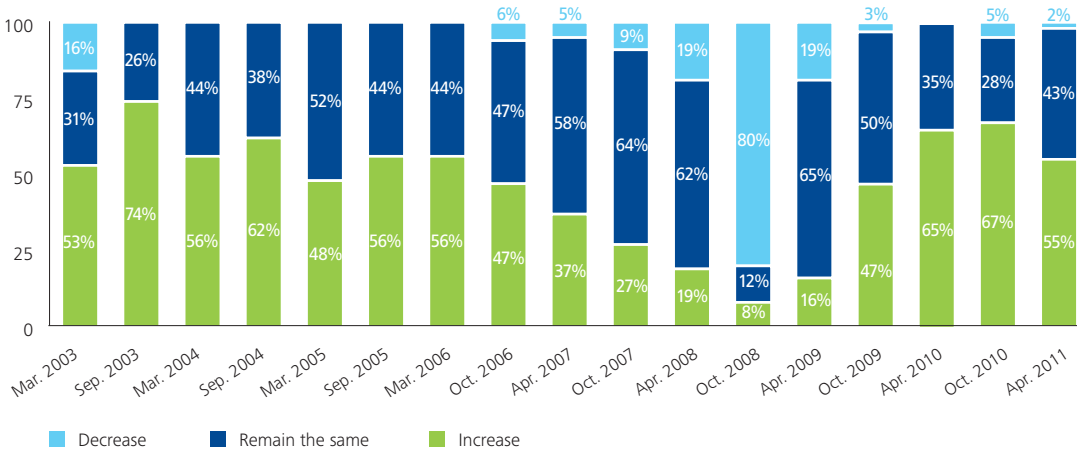


While over two thirds (68%) of respondents predict that deal sizes will remain at the same levels as recent times, there has nonetheless been a steady rise since October 2008 in the expectation that average deal sizes will rise. Recent large deals include the acquisition by Montagu

Private Equity of the Emitel Polish TV and radio broadcast infrastructure operator from Telekomunikacja Polska Group for €425m and the Macquire acquisition of Ceske Radiokomunikace from Mid Europa Partners for €574m.

Market activity

For this period, I expect the overall market activity to:

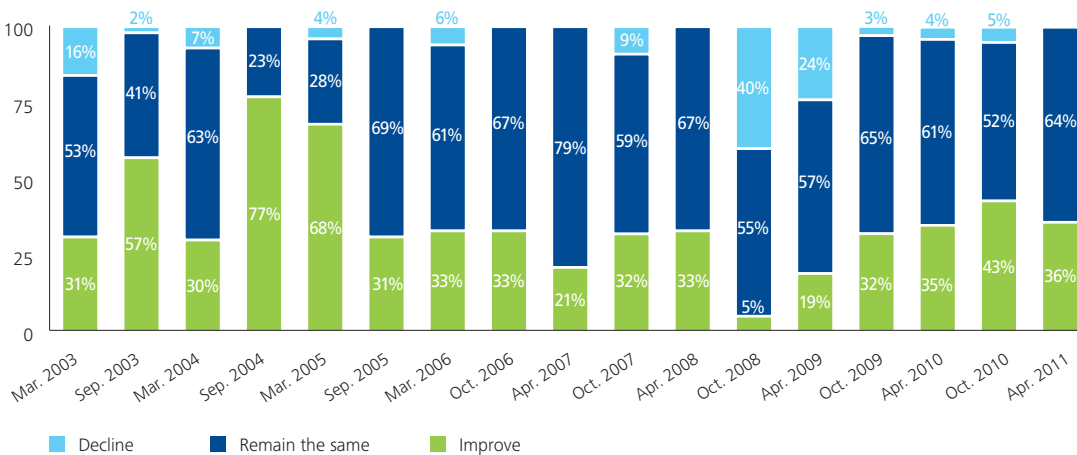


The response to this question is a further indication of the emergence of the 'new normal' that we identified in the last issue of the Index. It shows that 43% of respondents expect market activity levels to remain the same, a significant rise from the 28% predicting no

change in October 2010. The 55% majority expecting an increase in activity has fallen by 12% during the same period, but the proportion of 'pessimists' has been virtually wiped out since the massive 80% majority that predicted decline in October 2008.

Investment return

For this period, I expect efficiency of my financial investments to:

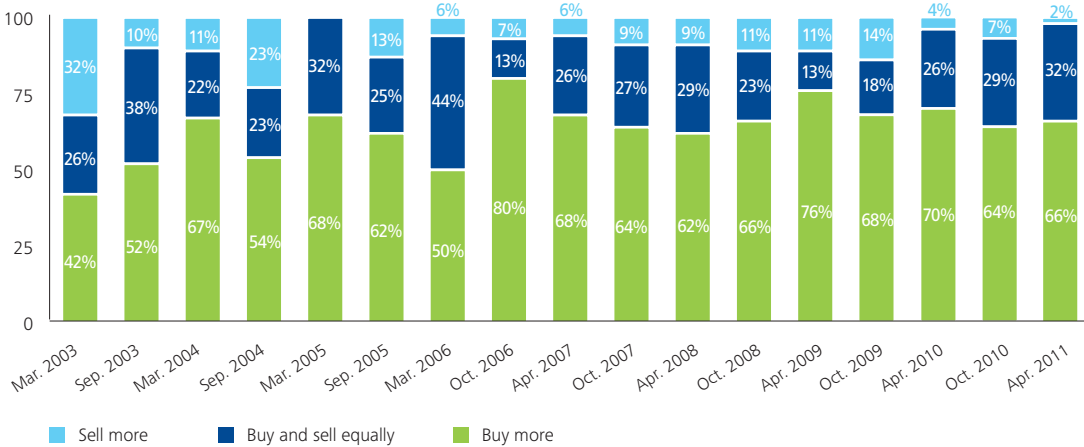


The proportion of market participants predicting an improvement in the efficiency of their investments has fallen by 7% since October 2010, but this is still the second highest score for this metric since March 2005.

The proportion of those expecting no change (64%) is at its highest since October 2009, while this is the first time since the verge of the financial crisis in April 2008 that no respondents have predicted a decline.

Investors' activities

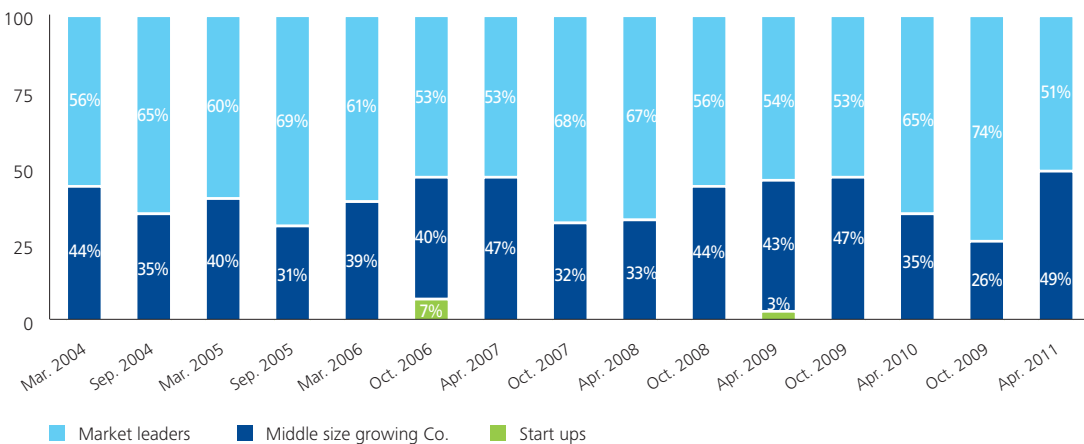
For this period, I expect to



There is a clear indication that PE funds are keen on acquisitions over the next six months, with two-thirds of all respondents expecting to buy more than they sell.

Competition for new investments

For this period, I expect the highest competition for new investment opportunities in:

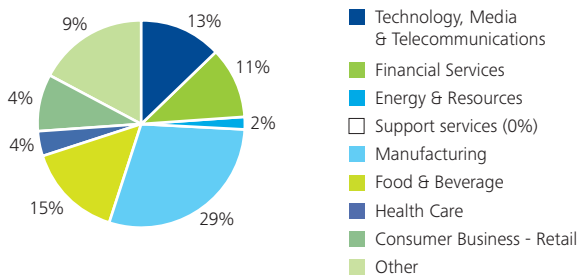


The increasing emphasis on medium-sized prospects with growth potential, up from 26% six months ago to virtually half of the sample, indicates the return of an appetite for risk. The 49% expecting heightened competition in that middle market is, in fact, the highest

score for this metric since the question was first asked in March 2004. The mid market segment has seen many acquisitions by ARX, Baltcap and Resource partners over the last six months. We expect continued buoyancy in this space as entrepreneurs of the 1990's seek exits.

Industry focus

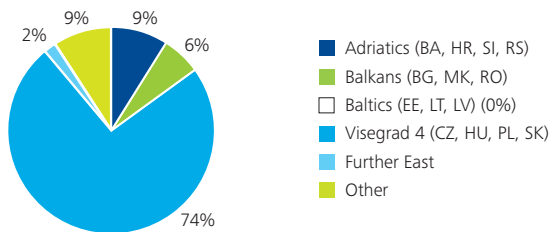
For this period, I expect to focus on opportunities in the following sector: (%)



Opportunities in the Manufacturing and Food & Beverage industries dominate the survey response, with a combined 44% of respondents identifying them as their key areas of focus, up from 31% in September 2005. With 13% of the sample, the Technology, Media & Telecommunications sector has experienced a decline in interest. A high number of deals in diverse segments characterise recent activity in the Manufacturing industry. Notable examples include: Advent's acquisition of pet food manufacturer Provimi and Arx's investments in hydroinsulation manufacturer KRPA Dehtochema and household care products manufacturer Bochemie Group; Highlander's investment in cardboard packaging manufacturer Akomex; and Resource Partners' investment in food manufacturer Melvit.

Regional focus

For this period, I expect to focus on investment opportunities in: (%)



Overwhelming support (74%) for the Visegrad Four (Czech Republic, Hungary, Poland and Slovakia) is primarily due to two factors. First, these countries have largely overcome the crisis and are now successfully on track to macro-economic stability and reform. Secondly, they are much bigger markets than others in Central Europe and their prosperity is largely driven by German investment activities.

Interest in other clusters within the wider region appears to be highly fragmented. By contrast, the Balkans and Adriatics are fragile from a macro-economic perspective because of the spillover effects of the Greek crisis. The influence of the issues affecting the Greek banking sector and its high risk margins is causing most difficulties for recovery in the Balkan countries. The Baltics are performing well from a macro-economic perspective, but because they are much smaller markets they have fewer opportunities to attract investment from abroad.

Fund raising

Company	Fund	Value € m	Status	Time	Description
Alternative Private Equity FGS	Alternative Private Equity	81	Closing	March 2011	Alternative Private Equity which focuses on mid-market equity investments in Croatia, has completed the closing of Alternative Private Equity FGS at approx €81m. APEQ, a generalist fund, will provide growth capital and buyout funding to medium sized companies in Croatia.

Selected significant exits

Company	Country	Seller	Buyer	Period	Value € m	Stake	Description
Aster Sp. z o.o.	Poland	Mid Europa Partners LLP	Liberty Global, Inc.	Dec 2010	595	N/A	Mid Europa Partners entered into an agreement to sell Aster, a leading provider of media and communication services in Poland, to UPC Polska Sp. z o.o., an affiliate of Liberty Global, Inc., for a consideration of circa €595m. The transaction is subject to regulatory approval by the Polish competition authorities, and is expected to close in the first half of 2011.
BONTONFILM a.s.	Czech Republic	Bancroft Private Equity LLP	Central European Media Enterprises Ltd.	Mar 2011	9	100%	Bancroft Eastern Europe Fund agreed to sell Bontonfilm a.s., the Czech Republic-based film distribution company to Central European Media Enterprises Limited (CME), the listed Czech Republic-based media company that operates broadcasting, internet and television content businesses for circa €9m.
BorsodChem Zrt	Hungary	VCP Vienna & Permira	Wanhua Industrial Group Co., Ltd.	Feb 2011	1.230	58%	Permira, VCP Vienna agreed to sell 58% of their stake in BorsodChem Zrt, the Hungary-based chemical group to Wanhua Industrial Group Co., Limited., the Chinese polyurethane raw materials producer through a call option for a consideration of €1.23bn.
České Radiokomunikace a.s.	Czech Republic	Mid Europa Partners	Macquarie	Jan 2011	574	N/A	Mid Europa Partners sold České Radiokomunikace, a broadcasting and communications company to Australian investment bank Macquarie for circa €574m.
Kruk	Poland	Enterprise Investors	IPO	Apr 2011	78,7	50%	Enterprise Investors (PEF IV), completed a partial exit from Kruk (loss prevention and receivables management services provider) in an IPO on the Warsaw Stock Exchange. PEF IV sold almost 50% of the company, for PLN 39.7 per share. The sale yielded gross proceeds of \$116.7m (€78.7m) and an 8x investment multiple. EI has retained a 24.8% stake in Kruk.
Mobilkom a.s.	Czech Republic	Penta Investments Limited	Divenno Holdings Limited	Feb 2011	N/A	100%	Penta Investments Limited agreed to sell Mobilkom, a.s., a Czech Republic-based company engaged in the wireless, internet, and fixed-line telephone services to Divenno Holdings Limited, the Czech Republic-based investment holding company, for an undisclosed consideration.

Company	Country	Seller	Buyer	Period	Value € m	Stake	Description
Novaservis a.s.	Czech Republic	KBC Private Equity NV	Ferro SA	Apr 2011	48	100%	KBC Private Equity NV sold Novaservis a.s., a Czech Republic-based distributor of taps and other bathroom accessories, to Ferro SA, a Poland-based company, for circa €48m.
PharmaSwiss SA	Poland	Enterprise Investors	Valeant Pharmaceuticals International, Inc.	Feb 2011	52,5	N/A	Enterprise Investors (PEF VI) is to sell its entire stake in PharmaSwiss SA for a total of €52.5m. PEF VI will sell its shares, along with the other stockholders, in a 100% sale of the company to Valeant Pharmaceuticals International, Inc., in a transaction valued at approximately €350m.
Tes Vsetin a.s.	Czech Republic	Penta Investments Limited	Advent International	May 2011	N/A	100%	Penta Investments Limited agreed to sell TES, a leading European manufacturer of tailor-made power generators and components used in the production of hydro, wind and non-renewable energy generation to Advent International for an undisclosed amount. TES is also a manufacturer and supplier of large specialised electric motors for various industrial applications.
Zabka & Koruna (PR Market s.r.o.)	Czech Republic	Penta Investments Limited	Tesco Stores ČR a.s.	Dec 2010	47,6	100%	Penta Investments Limited agreed to sell 81 Zabka and 47 Koruna stores in Czech Republic to retail stores operator Tesco Stores ČR a.s. for a consideration of circa €47.55m.
Zabka Polska S.A.	Poland	Penta Investments Limited	Mid Europa Partners LLP	Feb 2011	N/A	100%	Penta Investments signed an agreement to sell 100% of Zabka Polska S.A., the leading convenience store chain in Poland, to Mid Europa Partners, for undisclosed consideration.

Investments

PE House	Country	Company	Period	Est. Value € m	Stake	Description
Abris Capital	Poland	WestLB Bank Polska	Dec 2010	64,1	N/A	Abris Capital, jointly with Polish brokerage Dom Maklerski IDM SA (IDMSA) completed the takeover of WestLB Bank Polska, for a consideration of circa €64.125m.
Advent International	Hungary	Provimi Pet Food	Mar 2011	188	N/A	Advent International agreed to acquire Provimi Pet Food, a leading European manufacturer of pet food, from Provimi Group, for an enterprise value of €188m.
Advent International	Czech Republic	Tes Vsetin a.s.	May 2011	N/A	100%	Advent International agreed to acquire TES, a leading European manufacturer of tailor-made power generators and components used in the production of hydro, wind and non-renewable energy generation from Penta Investments Limited for an undisclosed amount. TES is also a manufacturer and supplier of large specialised electric motors for various industrial applications.

PE House	Country	Company	Period	Est. Value € m	Stake	Description
ARX Equity Partners	Poland	CS Recycling Sp. z o.o.	Dec 2010	N/A	51%	ARX Equity Partners acquired a 51% shareholding in CS Recycling Sp. z o.o. that provides plastic recycling services for an undisclosed consideration.
Arx Equity Partners	Czech Republic	KRPA Dehtochema, a.s.	Feb 2011	N/A	N/A	BHQ Czech a.s., the Czech Republic-based construction and electrical equipment holding company, a portfolio company of Arx Equity Partners s.r.o., acquired hydroinsulation band manufacturer KRPA Dehtochema, a.s. from KRPA Holding S.A. for an undisclosed consideration.
Arx Equity Partners	Czech Republic	Bochemie Group	Nov 2010	N/A	N/A	ARX Equity Partners has joined current owner Benson Oak Capital as a minority investor in the Bochemie Group, a leading producers of household care products and a manufacturer of high value-added specialty chemicals.
BaltCap	Lithuania	UAB Kelprojektas	Jan 2011	N/A	N/A	BaltCap, acquired UAB Kelprojektas, the Lithuania-based transport infrastructure engineering company, for an undisclosed consideration.
BaltCap	Latvia	Oobelisk	Dec 2010	N/A	N/A	BaltCap provided financing for corporate media production start-up company Oobelisk, in return for a majority stake in the company.
BaltCap	Estonia	Trev-2 Grupp AS	Dec 2010	N/A	N/A	BaltCap acquired a minority stake in Estonian road construction company Trev-2 Grupp AS, for an undisclosed consideration.
East Capital AB	Serbia	B92 A.D.	Nov 2010	3,9	84,9%	Astonko Ltd, a Cyprus-based acquisition vehicle which is a joint venture between East Capital AB and Stefanos Papadopoulos, the Serbia-based private investor acquired a 84.99% stake in B92 A.D., the Serbia-based radio broadcaster, from Media Development Loan Fund, for a consideration of circa €3.99m.
Highlander Partners LP	Poland	Akomex Sp. z o.o.	Nov 2010	4	53%	Highlander Partners LP, acquired a 53% stake in Akomex Sp z o.o., manufacturer of cardboard packaging, from Sebastian Sliwa, the Poland-based private investor, for a consideration of circa €4m.
Innova Capital Sp zoo	Romania	Provus Service Provider SA	Jan 2011	N/A	96%	Innova Capital Sp z o.o., acquired a 96% stake in Provus Service Provider SA, Romania which is engaged in issuing ATM card and processing services, volume printing and card personalisation services to the banking, retail and telecom sectors. The acquisition was from Turkven Private Equity, for an undisclosed consideration.
Krokus Private Equity	Poland	Catermed Sp. z o.o.	Nov 2010	N/A	55%	Krokus Private Equity (NPN II) acquired a 55% stake in Catermed Sp. z o.o., that provides catering services to hospitals, for an undisclosed consideration.
Mid Europa Partners LLP	Hungary	Waberer's	Mar 2011	N/A	49%	Mid Europa Partners signed an agreement to acquire a 49.05% stake in Waberer's, a Hungarian road freight transport company, for an undisclosed consideration.

PE House	Country	Company	Period	Est. Value € m	Stake	Description
Mid Europa Partners LLP	Poland	Diagnostyka Sp. z o.o.	Feb 2011	N/A	N/A	Mid Europa Partners entered into an agreement to acquire a strategic stake in Diagnostyka Sp. z o.o., a healthcare equipment and software provider, and committed to inject new equity to support Diagnostyka's growth strategy. The transaction is subject to customary closing conditions, including competition clearance.
Mid Europa Partners LLP	Poland	Zabka Polska S.A.	Feb 2011	N/A	100%	Mid Europa Partners signed an agreement to acquire 100% of Zabka Polska S.A., the leading convenience store chain in Poland, from Penta Investments, for undisclosed consideration.
Montagu Private Equity	Poland	Emitel	Mar 2011 - pending	425	N/A	Montagu Private Equity is to acquire Polish TV and radio broadcast infrastructure operator Emitel from Telekomunikacja Polska Group. The deal is expected to close for PLN1.7bn (€425m).
Penta Investments Limited	Slovakia	Dexia banka Slovensko a.s.	Mar 2011	N/A	88,7%	Penta Investments Limited acquired a 88.71% stake in Dexia banka Slovensko a.s., the Slovakia-based bank, from Dexia SA, the Belgium-based retail and commercial bank, for an undisclosed consideration.
Penta Investments Limited	Czech Republic	AB Facility a.s.	Dec 2010	N/A	N/A	Penta Investments Limited, agreed to acquire AB Facility SA, the Czech Republic-based facilities management company, from Genesis Capital s.r.o., for an undisclosed consideration.
Resource Partners Spz	Poland	Interchem S.A.	Nov 2010	N/A	N/A	Resource Partners Spz, agreed to acquire a majority stake in Interchem S.A., the pharmaceutical and household goods retailer, for an undisclosed consideration.
Resource Partners Spz	Poland	Sps Handel S.A.	Nov 2010	N/A	N/A	Resource Partners Spz agreed to acquire a majority stake in retail chain Sps Handel S.A. for an undisclosed consideration.
Resource Partners Spz	Poland	Melvit S.A.	Nov 2010	N/A	N/A	Resource Partners Spz agreed to acquire a majority stake in food manufacturer Melvit S.A. for an undisclosed consideration.

Contacts & additional resources

Private Equity regional contacts

Garret Byrne

M&A Transaction Services
Leader
+420 246 042 339
gbyrne@deloitteCE.com

Bela Seres

Regional Managing Partner
Financial Advisory
+36 1 428 6936
bseres@deloitteCE.com

Miroslav Svoboda

Tax M&A Leader
Tax
+420 246 042 924
msvoboda@deloitteCE.com

Dariusz Kraszewski

Consulting M&A Strategy
& CDD
+48 22 511 06 33
dkraszewski@deloitteCE.com



Central European Private Equity Confidence Survey

Central European Private Equity Confidence Survey reflects the expectations of private equity professionals focusing on Central Europe. The survey has been conducted twice a year since March 2003 and the results are based on questionnaires sent to private equity firms around the region.

Previous editions are available at www.deloitte.com/ce-private-equity-confidence



Deloitte Business Sentiment Index

The Deloitte Business Sentiment Index is a research-based analysis of the opinions of senior executives on a number of important business-related issues. The executives who participate in the Business Sentiment Index represent some of the largest companies within six countries of Central Europe: Croatia, Czech Republic, Hungary, Poland, Romania and Slovakia.

For more information go to www.deloitte.com/bsi



Up Front

Third edition of Up front publication that compiles the views of some of the biggest names in the corporate sector, private equity and financial markets to share their experiences and provide their insights into the M&A landscape in 2011 and beyond.

For more information click [here](#)

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries.

With a globally-connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 170,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

For information on the Deloitte CE Private Equity confidence survey please visit:

www.deloitte.com/ce-private-equity-confidence

"Deloitte" is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, and tax services to selected clients. These firms are members of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTTL does not itself provide services to clients. DTTL and DTTL member firm are separate and distinct legal entities, which cannot obligate the other entities. DTTL and each DTTL member firm are only liable for their own acts or omissions, and not those of each other. Each of the member firms operates under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names. Each DTTL member firm is structured differently in accordance with national laws, regulations, customary practice, and other factors, and may secure the provision of professional services in their territories through subsidiaries, affiliates, and/or other entities.

Deloitte Central Europe is a regional organization of entities organized under the umbrella of Deloitte Central Europe Holdings Limited, the member firm in Central Europe of Deloitte Touche Tohmatsu Limited. Services are provided by the subsidiaries and affiliates of Deloitte Central Europe Holdings Limited, which are separate and independent legal entities. The subsidiaries and affiliates of Deloitte Central Europe Holdings Limited are among the region's leading professional services firms, providing services through more than 3,400 people in more than 30 offices in 17 countries.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.