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Sweets of the American Clergymen

by Oleksiy Muzhchyna

HORIZON CAPITAL HAS PUT UP FOR SALE A 25,1% STAKE IN AVK CONFECTIONERY

Western NIS Enterprise Fund (WNISEF) became operational in Ukraine in 1995. This fund is a part of a U.S. government program aimed at promoting Ukraine's economic development. For these purposes, the United States appropriated \$150 million and the above program at that time became a sort of a "green light" to other foreign companies' investments in this country.

The fund has made equity investments in a range of mid-cap companies operating, as a rule, in the financial sector, food processing, construction materials, and packaging materials markets.

Horizon Capital, a WNISEF asset management company, was established in 2005. In 2006, Horizon Capital created yet another, private equity fund – Emerging Europe Growth Fund (EEGF).

A distinctive difference between EEGF and WNISEF is in the fact that the former was established for the money of private and institutional investors – individuals and legal entities. Its shareholders include pension funds (particularly, the Episcopalian Church Pension Fund), family groups, Gutmann Bank (an Austrian bank), FMO (a Dutch development bank), Claremont McKenna College (USA), C.V. Starr. Investors' total capital commitment in EEGF is \$132 million. Unlike WNISEF, whose bylaws provide for the possibility of reinvestment of profit, the entire profit of EEGF shall be returned to the investors, and the investors shall not be allowed to reinvest it. It means that once the investors get back their final investments, EEGF will end its operation in Ukraine.

Shostka Yielded a 6xCash-On-Cash Return

In the second half of 2005, Horizon Capital purchased a controlling stake in Shostka City Milk Plant. Before the arrival of the shareholders, the company had extensively exported cheeses to Russia and practically had had no well-established distribution system in Ukraine.

The new investor helped improve the quality of milk, supplied the plant with a new equipment and reoriented the production at the domestic market. As a result of the Russian ban on import of Ukrainian cheeses, many Ukrainian cheese manufacturers suffered heavy losses as most of their products were exported, and it was quite difficult to reorient the production in the shortest possible time. Furthermore, this implied additional capital infusions. By that time, Shostka practically did not depend on export to Russia, so it was not hit by the crisis.

Earlier this year, Horizon Capital sold its controlling stake in the milk plant, achieving a 6 times cash-on-cash return

Horizon Capital Will Create a New Fund

Currently, Horizon Capital is forming the authorized capital and is formalizing the documents required for operation of a new investment fund, which is expected to be launched in the second half of the next year. According to the Horizon Capital officials, the shareholder portfolio has been practically formed, and the fund will accumulate no less capital than the two existing funds.

The principal forms of investment considered by Horizon Capital for its further projects include both repurchase of a 100% interest in a functioning company and partial investments in a company. Also, a maximum amount of investment in a single company will increase. The amount of investment made by WNISEF in a single company varied from \$1 million to \$10 million, in case of EEGF it ranges between \$5 million and \$20 million, whereas the new fund will invest from \$10 million to \$30 million.

AVK for Sale

However, it would be wrong to say that Horizon Capital's business have always been running smoothly. In particular, some projects ended up in court due to shareholder disputes, and some investments have proved unprofitable. But all those cases took place in 1995-1998. For example, an agricultural machinery trading company was established in 1995 for the WNISEF money, but a short time later it went bankrupt. Thereafter, Horizon Capital did not venture to invest in agriculture. An attempt to create Euromart, a cash and carry supermarket chain, also failed.

Acquisition of a shareholding in AVK confectionery was a sort of a turning point. After the 1997-1998 economic crisis, many foreign importers discontinued the delivery of their products to Ukraine, and the market provided enough room for the domestic manufacturers. In 1997, before the arrival of Horizon Capital, AVK sales revenues stood at \$45 million, and last year it increased to \$250 million. The new investors modernized the company's production facilities, AVK moved to a new office, and the operational efficiency improved dramatically. Horizon Capital would not mind selling its 25.1% stake in AVK. "We are waiting for offers, and, above all, we should be comfortable with the price", Horizon Managers say.

Natalie Jaresko, Managing and Founding Partner, Horizon Capital:

We Are Going to Buy TV Channels, a Newspaper or a Magazine

by Oleksiy Muzhchyna

What return on investment does Horizon Capital get?

No less than 30-40% per annum. Private investors of the fund, which operates in the emerging market economy, expect such returns, given the investment risks in this market. In terms of the returns they get, it is more profitable than to invest in the U.S. or EU companies as a maximum return on investment in these countries would be just 10-15% per annum.

For what term do you invest capital in Ukrainian companies?

On the average, duration of our projects is 4-5 years.

What is the difference between managing the companies in Moldova and Ukraine?

These are absolutely different countries in terms of size, business areas, and peculiarities of doing business. Moldova more relies on export of its products. It is also a member of the WTO, which slightly simplifies the procedure of trading with other countries, particularly, with Romania, which is Moldova's main trading partner, as well as with Russia and Kazakhstan. In Ukraine, many enterprises are oriented towards the domestic market, which determines the vector of their operation. Furthermore, unlike the economy of Moldova, Ukraine's economy is more diversified. In Belarus, the situation is totally different. There, the state has a dominating position in many industries, and the market reforms practically did not affect the country. However, despite high risks, returns in this country are also high.

You have one "common" project in Ukraine and Moldova – International Mortgage Bank. Do these investments produce high returns?

We received an operating license for this financial institution as far back as in January 2005, and the initial investment in the project was \$7 million. In addition, \$14 million was invested in the project over the past two years. Today, this bank is valued at minimum \$250 million, but at this point we are not going to sell our stake.

You also own MTV Ukraine. Is this your first media project? How much did it cost you?

This project cost us \$10 million. This is really our first, but by no means the last media business. I do not rule out that in the near future our portfolio will include the stocks of a newspaper or a magazine. Also, we are going to develop MTV Ukraine, particularly, expand its coverage, program package and, probably, we will buy some other TV channels.

Your company holds a 49.9% stake in Shvydko. What governed your decision to enter the fast food market?

Its growth dynamics. When we received an offer to purchase a stake in Shvydko, the company had only one fast food restaurant. Of course, the risk was high as the real estate prices and the rent are growing every year, and the competition in this market is high. But if we did not see any prospects, we would not invest in it.

How much do you plan to gain from sale of Shvydko?

We expect to achieve a 3-4 times cash-on-cash return. Otherwise, it does not make any sense to invest.

How many investment projects did you accomplish in Ukraine and Moldova?

About 30.

Which of your portfolio companies are well-positioned for IPO?

At this point, there are none. But in a short-term perspective, AVK and ProCredit Bank have good prospects in this area. As far as Moldova is concerned, for the time being, our companies do not have such prospects there.

Are there any Ukrainians among the investors of your funds?

At this point, there are no our countrymen, but there are some natives of Russia. Ukrainians have not yet got into the habit of investing money and watching how it works without managing it.

Horizon Capital is a private equity fund manager that originates and manages investments in mid-cap companies with outstanding growth and profit potential in Ukraine, Moldova and Belarus. Currently, Horizon Capital manages two funds, Emerging Europe Growth Fund, LP (EEGF) and Western NIS Enterprise Fund (WNISEF).

Western NIS Enterprise Fund is a \$150 million fund that invests in small and medium-sized companies in Ukraine and Moldova. Proceeds from WNISEF's equity investments of \$1 million to \$10 million in size are used primarily for business restructuring and expansion. Since its inception, WNISEF has invested more than \$120 million in a range of industries with a concentration on fast-moving consumer goods, construction materials, packaging, retail, and financial services.

WNISEF is governed by an independent Board of Directors comprised of leading representatives of the U.S. business community. WNISEF was established by the U.S. Congress and is funded by the U.S. government via the U.S. Agency for International Development (USAID).

Emerging Europe Growth Fund is a \$132 million private equity fund that invests in Ukraine and Moldova. WNISEF is a cornerstone limited partner in EEGF, with a capital commitment of \$25 million. Other EEGF investors include fund of funds, banks, private pension funds, university endowments, family offices and individuals.

EEGF Investment Portfolio:

- **Ergopack** – a household disposables manufacturer;
- **International Mortgage Bank Group** is specialized in consumer lending;
- **Kerameya** – a façade brick manufacturer;
- **Natur Bravo** – a fruit and vegetable processor in Moldova.

WNISEF Investment Portfolio:

- **AVK** – a confectionery group;
- **Ecoproduct** – an agricultural producer, agricultural equipment provider, grain trader and livestock producer;
- **Energy Alliance** – an energy services company that provides energy solutions to reduce overall energy costs;
- **Glass Container Company** – a manufacturer of green glass packaging for wine industries in Moldova, Ukraine, Romania, and Russia;
- **ProCredit Bank** – a bank focused on lending of micro and small enterprises in Ukraine;
- **ProCredit Moldova** – a non-bank financial institution focused on lending of small and medium-sized companies;
- **Shvydko** – a fast food chain;
- **Svitnok** – a manufacturer of wooden and plastic windows and doors;
- **Troyanda** – an ice cream manufacturer.

Horizon Capital Selected Exits:

- Shostka City Milk Plant;
- Moldova Agroindbank S.A.;
- SBK;
- Vitanta Intravest.

Since independence, the total volume of foreign direct investment in Ukraine has reached **\$19.4 billion.**

Focus on Moldova and Belarus

On December 13, 2007, Horizon Capital acquired a 25% stake in FinComBank (Moldova) and a 31.5% stake in MTB (Belarus). “The banking sector in these countries is booming, but they still remain substantially underbanked”, noted Alexandru Munteanu, Senior Vice President of Horizon Capital.