

Horizon Capital: Investing in the Future

By Roman Rybak

Volume of foreign direct investment in Ukraine's economy is growing. In the first half of 2007 alone FDI increased by almost 4%. During 2005-2006, Ukraine attracted \$10 billion in FDI. Despite the lack of political stability, foreign investors are lured by the government's intention to pursue a transparent and open public policy and by positive trends in the development of economy (in Q1 2007, GDP growth was about 8%, inflation stood at 1.3%, and real disposable personal income increased by 11.1%). It seems that Ukraine gained the confidence of the Western business community. President Viktor Yushchenko noted recently that "we, in my opinion, are engaged in a new and successful dialog with the investor".

Leaders in terms of FDI are Germany, Cyprus, Austria, the UK, the Netherlands and the United States. One of the leaders among the U.S. investors is Horizon Capital that currently manages two private equity funds: Western NIS Enterprise Fund (WNISEF)¹ and Emerging Europe Growth Fund, LP (EEGF)².

Mission Accomplishable

Over 12 years of its operation in Ukraine and Moldova, WNISEF has invested about \$120 million in 29 companies representing a range of industries, with a concentration on FMCG, construction materials, packaging, financial services and retail.

The fund's mission is formulated as follows on WNISEF web site: "Our mission is to build competitive market leaders that attract additional private capital to the region. We serve as a catalyst for growth in our portfolio companies by utilizing international best practices, corporate governance standards, and prudent environmental practices".

Horizon Capital via its funds makes investments in mid-cap companies with outstanding growth potential. Generally, Horizon Capital acquires stakes that enable it to control or to influence the strategy and the key operational decisions of portfolio companies through corporate governance mechanisms. To implement larger investment projects, Horizon Capital may pool efforts with other investors that share its strategy – to increase shareholder value. Horizon Capital focuses on increasing company profitability and market share, thereby ensuring successful exit for the investor and the partner. The amount typically invested in a single company ranges from \$1 million to \$20 million.

What are the investment criteria? Key characteristics of a potential investee must be as follows:

- Significant addressable market opportunities;
- Significant potential for revenue and profit growth;
- Proficient management teams with a proven track record of success and significant expertise within industry;
- Financial transparency and adherence to internationally-accepted principles of corporate governance;
- Potential for superior returns on invested capital;
- Clear exit strategies for realizing returns (trade sale, IPO).

¹ WNISEF was established by the U.S. Congress and is funded through the U.S. Agency for International Development (USAID).

² Emerging Europe Growth Fund, LP (EEGF) is a \$132 million mid-cap private equity fund making investments in Ukraine, Moldova and the region. WNISEF is a cornerstone limited partner in EEGF with a capital commitment of \$25 million.

Market Leaders in the Investment Portfolio

Horizon Capital willingly invests in the food processing industry. Its portfolio includes large companies such as “AVK” and “Troyanda”. The company also invests in the restaurant business, for instance, in the chain of quick-service restaurants “Shvydko”. Thus, one of its funds, Western NIS Enterprise Fund, owns a 49.9% stake in this popular fast food chain. “Shvydko” has successfully expanded to include 11 restaurants. Reasonable prices, quality customer service and a wide variety of national dishes have made “Shvydko” a popular and recognized brand.

In the food processing industry, WNISEF’s portfolio companies have demonstrated a sustainable growth, remaining the market leaders, according to the WNISEF Annual Report for 2006. Dynamic development of “AVK”, which is known as one of the leading branded confectionery manufacturers, is also noteworthy (WNISEF owns a 25.1% stake in “AVK”). Last year, the sales and marketing function was enhanced and the distribution system was improved. “AVK” has made a shift towards high-margin chocolate items. Opening of a wholly-owned subsidiary of the company in Russia was another step forward. Today, “AVK” operates 5 confectioneries manufacturing more than 300 SKUs.

In 2005, WNISEF acquired a controlling stake in OJSC “Shostka City Milk Plant”. It was a first investment in the cheese-making industry. Shortly, the “Shostka” brand was developed and launched successfully, and a nationwide distribution system was built. Investors and the company personnel have undergone severe trials. Russian embargo on export of dairy products made the company seek for new markets. The management team ably resolved the difficult situation, having increased the domestic sales of cheese.

In May 2007, Horizon Capital sold its controlling stake in OJSC “Shostka City Milk Plant” to French Fromageries Bel S.A., achieving a 5.9 times cash-on-cash return.

Larysa Rudakova, Director of Shostka City Milk Plant, Honorary President of Bel Group in Ukraine:

- The company employs excellent managers. We have learned a lot from them. Horizon Capital has left a very good impression. Its employees are real professionals, and they know business perfectly well. Although the fund’s investment team had no experience in the cheese industry, which has its own peculiarities and problems (let’s take, for example, the raw material issue or the Russian embargo), they worked with us as a team and overcame all difficulties.

Horizon Capital management sees good prospects for its business in Ukraine as it offers an attractive risk/profit ratio. The company’s optimism is corroborated by projections of the experts, who expect that Ukraine’s economy will grow 5% a year over the next five years. As a result, attractive investment opportunities may open up for Horizon Capital and its portfolio companies in quite a number of industries.