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PRIVATE EQUITY

**KENYA
UNDER A CLOUD**

**THAI PE FACES
NEW DAWN**

**SAUDI ARABIA'S
GENTLE MOMENTUM**

**UKRAINE PUSHED INTO
LIMELIGHT**

LATAM'S IPO MARKETS

Horizon Capital

Horizon Capital is one of the oldest private equity funds operating in Ukraine. It began its life as the Western NIS Enterprise Fund (WNISEF), a US\$150m fund set up in Ukraine by the US government in 1995. Other similar funds were set up in other former Communist countries. The success of WNISEF led to the raising of a US\$132m Emerging Europe Growth Fund in 2006, with a US\$25m cornerstone investment by WNISEF and additional capital provided by global institutional investors. This second fund is now fully invested and the firm is targeting a further US\$300m for its next fund, which held its first closing on US\$100m in February.

Horizon Capital focuses on expansion and buyout investments in mid-cap companies, with equity stakes of US\$10m to US\$30m. The firm focuses on consumer-related companies, financial, retail and manufacturing.

Jaresko says the firm specialises in acquiring or taking stakes in companies that need modernisation and better corporate governance, so they will be more attractive to overseas buyers. "These companies need more capital and private equity is a good way for them to get that, as well as input into improving corporate governance," she says.

"Ukraine is a large consumer market and densely populated, with six cities of over one million people," says Jaresko: "There is high brand loyalty and it is possible to build brands." On the financial services side, she says Horizon has found the retail sector in banking and non-banking services attractive. "The consumer market has been under-banked, so we've invested in businesses offering mortgages, consumer loans and auto loans. This is a growing market and, when it comes to mortgages Ukraine has now nearly caught up with Poland."

Retail is another attractive sector, she says. Ukraine has figured in the top five of the AT Kearney global retail development index for the past two years, alongside countries like Russia, India, China and Vietnam. This is largely due to the fast growth in consumer spending and the fact that retail was under-developed when the country was part

of the Soviet Union and since its break up there has been increasing demand for more shopping facilities.

Manufacturing is the other area Horizon focuses on and Jaresko points out that Ukraine is in a strategic geographical position between the two large markets of the EU and Russia.

Jaresko says: "Our team reflects the different industry sectors we're interested in so, for example, we have a former Philip Morris executive who is an expert on building brands, someone from the banking sector who oversees our financial services investments, and so on."

Among Horizon's exits was cheese company Shostka City Milk Plant, which was sold to France's Fromageries Bel in May 2007, achieving a gross 5.9 times cash-on-cash return and 470% IRR. When Horizon bought the company it was focused on exports of unbranded cheese to Russia. Jaresko says: "We developed it from a virtually wholesale product to a quality brand because we knew a trade buyer would be interested in it." The private equity house also improved the company's access to milk supplies and distribution channels.

When it comes to investments, Jaresko highlights consumer banking business IMB Group, which Horizon built itself. The company offers mortgages, consumer loans, bank accounts and deposit services. Its strategy is to deliver above-average asset growth rates by concentrating on the fastest-growing markets. Horizon brought in Warburg Pincus as an equity partner in June 2007. Warburg Pincus and other investors, such as the East Capital Explorer Financial Institutions Fund, invested US\$100m in equity. The group also raised capital from institutions such as the IFC and from a private placement. "We have plenty of capital now to expand the business beyond Kiev," says Jaresko.

Another investment has been in Ergopack, a fast-growing business in household disposable goods. The company has a 25% market share in the household sponge, rubbish bag and cellophane wrap product range. Horizon's expansion capital



Natalie Jaresko, Horizon Capital

is being used to increase production capacity and build a new production and polyethylene recycling facility.

Horizon is also involved in MTV Ukraine and Jaresko points out that MTV Russia has been a very good investment for its Russian private equity backers. "We launched MTV Ukraine, under license, in August 2007, setting up the team from scratch," she says.

There has also been the sale of a brick manufacturer to a local consolidator, says Jaresko. "We're backing this entrepreneur in another construction materials deal, but it's rare to come across such serial entrepreneurs in Ukraine."

One of the main challenges Horizon faces, says Jaresko, is the limited pool in Ukraine of high-quality managers and financial experts: "There's a real challenge when it comes to human resources. With all the big banks sold to new owners there's a big demand for financial experts locally and when it comes to our portfolio companies finding good managers to transform the businesses can be difficult."

Natalie Jaresko

Natalie Jaresko is one of the founding partners of Horizon Capital, which manages two funds, the Emerging Europe Growth Fund and Western NIS Enterprise Fund (WNISEF) with over US\$280m under management. Before joining WNISEF Jaresko worked for the US Department of State where, from 1992 to 1995, she was the first chief of the economic section of the US embassy in Ukraine. Before that she served in various economic positions at the State Department in Washington DC.