Enterprise Expansion Fund:
An equity and quasi-equity investor in the Western Balkans

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for Reconstruction and Development

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What is the WB EDIF?

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- WB EDIF is an **EU funded initiative** which aims to increase the financial resources available to SMEs in the Western Balkans
- WB EDIF also offers **technical assistance** to governments in the region to facilitate capacity building, support socio-economic development and EU accession across the Region
- WB EDIF was launched in December 2012 by the European Commission, with the EIF, the EBRD and the EIB, acting as **co-lead international financial institutions.** It benefits from the **support of bilateral donors** and the **governments of the countries in the Western Balkans**
- The **EUR 145 million** of initial capital pulled together under WB EDIF may **translate into about EUR 300 million of finance** benefitting SMEs in the Western Balkans

WB EDIF: main components

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WB EDIF provides local SMEs with a range of financing instruments (equity, quasi-equity, guarantees etc.) and includes the following components:

- **ENEF** - a private equity fund focusing on providing expansion capital to high growth SMEs
- **ENIF** - a venture capital fund focusing on seed capital and early stage equity investments in innovative SMEs
- a **Guarantee Facility** to support access to bank lending for local SMEs
- a **Technical Cooperation** facility to support a comprehensive reform programme for the development of the venture capital and private equity industry, to offer capacity building of local administrations as well as support the platform itself
- **Advisory services** for SMEs, complementary to the financing services

WB EDIF: how does it work?

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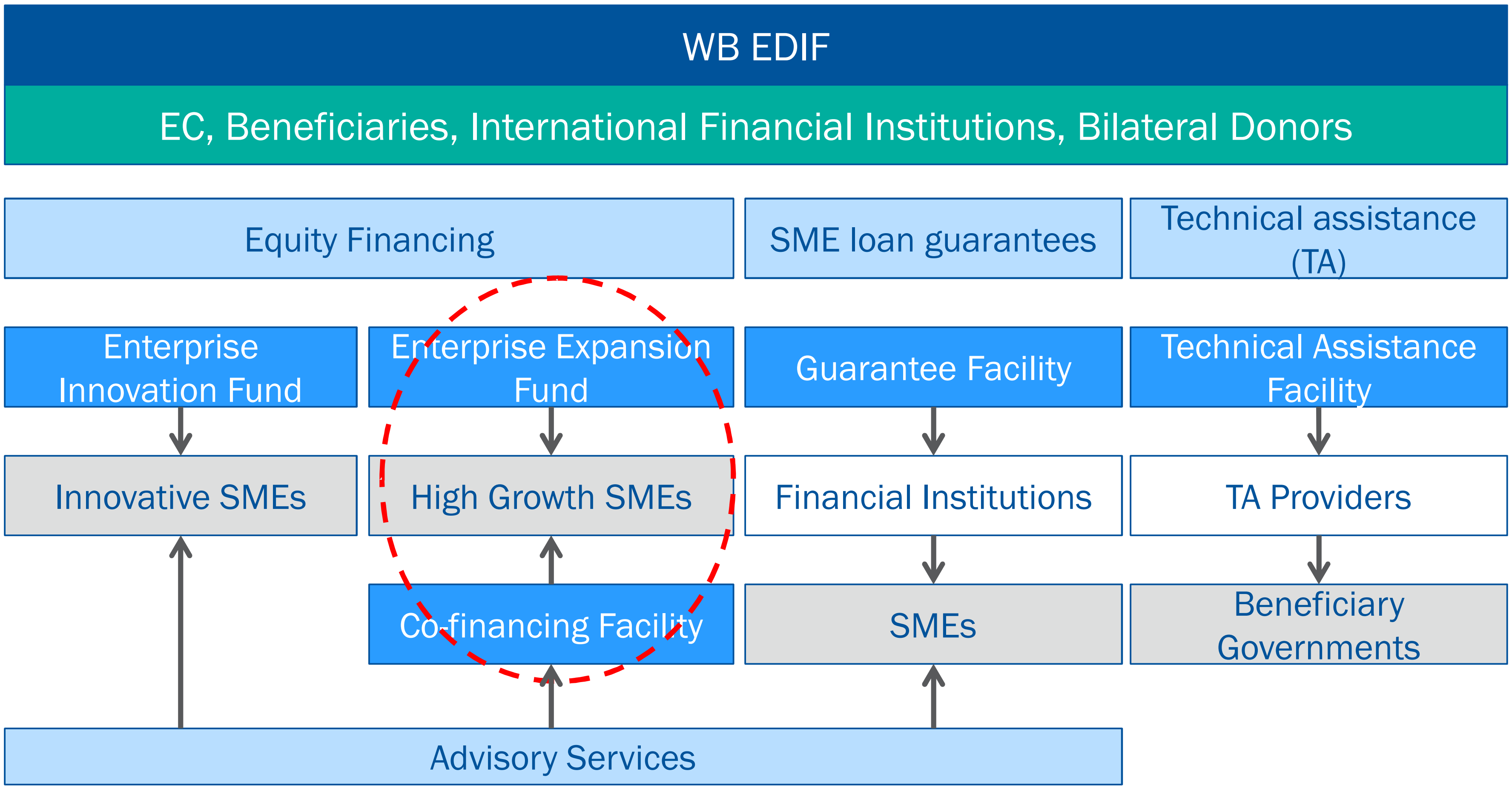

What is ENEF?

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The Enterprise Expansion Fund ("ENEF") is:

- A fund for **equity** and **quasi-equity** finance
- Established jointly by the EBRD, EU, EIF and DEG in February 2014
- For investments in the **Western Balkans** (Albania, Bosnia & Herzegovina, Croatia, FYR Macedonia, Kosovo, Montenegro and Serbia)
- To meet the growing **financing needs of dynamic local SMEs**, not sufficiently supported by other financing sources
- With the EBRD acting as **Investment Advisor**

ENEF resources

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- **€38.5 million of initial capital** provided by EBRD (€19 million), EIF (€14.5 million) and DEG (€5 million), and matched one-for-one by a co-financing facility provided by the EBRD for a total of **€77.0 million**
- **€9.8 million of Technical Cooperation funds** provided by the EU for project preparation, pre- and post-investment technical assistance
- A team of **dedicated bankers at the EBRD** located in London as well as the EBRD's resident offices in Belgrade, Podgorica, Pristina, Sarajevo, Skopje, Tirana and Zagreb
- **Streamlined investment approval process**

What are the Objectives of ENEF?

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- **Enhancing competitiveness and product quality:** strengthening market competitiveness and improving the quality of goods and services provided
- **Innovation:** introducing new, replicable products and technologies to achieve better use of labour, higher productivity and efficiency improvements
- **Setting standards for corporate governance:** encouraging investee companies to apply higher standards of corporate governance and business conduct

Who is eligible to apply for financing?

- **Eligible investments:** expansion, restructuring or acquisitions of existing private businesses
- **Eligible sectors:** a wide range of sectors, with only few exceptions (weapons, spirits, tobacco, gambling). All investments must be in line with sound environmental principles
- **Size of investments:** individual investment could range between EUR 1 million and EUR 10 million (including the co-financing provided by the EBRD)
- **Target Stake** for equity investments: (preferably) in the range of 20 to 35% of the capital of the company
- **Investment horizon:** a period between 3 and 10 years (usually, 5-7 years)

Equity transactions

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In an **equity deal ENEF** contributes to the share capital of the company and becomes a **partner of the owners.** The consequences are as follows:

- The owners of the company and ENEF agree to **develop the business together** and bring the company to the next level (a growing, well organised and competitive company)
- They **share proportionally the benefits** (profits, dividends) of the enlarged company, **but also the associated risks** (ENEF would be exposed to losses)
- The company does **not need to pay any interest or provide collateral** for the additional capital received from ENEF
- At the end of the investment horizon: ENEF would **sell its stake to a third party or the original owners**

Quasi-equity transactions

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Quasi-equity transactions are appropriate when there is no rationale for ENEF to become a shareholder and a senior loan is not feasible. The peculiarities are as follows:

- There is a **variety of available instruments:** preferred shares, mezzanine loans, subordinated loans, convertible loans, etc.
- They can be structured to **suit the specific needs of a company** in terms of repayment, level of seniority, risk profile and so on
- ENEF would have some degree of **involvement in the corporate governance** and would support the company in its development more than a provider of a senior loan would do

Investment Process (1)

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Pre-investment phase (from 3 to 9 months)

Mandate Letter

Term Sheet

Preliminary Discussions

- Initial meetings and site visits
- Discussions on mutual interest for cooperation

Screening

- Entrepreneurs provide information about their company and the project
- EBRD Bankers prepare a Concept Review Memorandum for approval by the Investment

  Committees

Due Diligence and Structuring

- EBRD and outside consultants conduct technical, environmental, legal and financial due diligence on the company and the project
- Bankers and Sponsor define and agree on the transaction structure and valuation/ pricing

- Final Decision of the Investment Committees

Investment Process (2)

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Post-investment phase (from 3 to 10 years)

Investment

- Legal Agreements are drafted and executed
- Subscription and/or disbursement take place

Management and Monitoring

- EBRD and ENEF appoint a member (or observer) of the Board of Directors (if agreed)
- EBRD could hire (if needed) consultants to assist the company in the project implementation
- Company provides EBRD with regular updates on financial performance and project progress

- Decision of the Investment Committees to exit the investment in the company (the timing is usually coordinated with the other owners)

Exit

- EBRD and ENEF sell their stake in the Company in one of the following ways:

  - trade sale;
  - sale back to the other owners;
  - IPO;
  - secondary buy-out;
  - re-leveraging of the company.

Valuation Methodology

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Valuation of the investee company depends on its sector and stage of development

Usually, the valuation is based on (at least) one of the following three methodologies:

1. **Valuation multiples** for a sample of comparable companies (usually EV/EBITDA and EV/Sales multiples)
2. **Discounted Cash Flow analysis** based on projections for the future revenues, costs and profits of the company
3. **Project Cost** – for start-up companies with significant uncertainty about revenues and profits

Company value is calculated on the basis of the latest available financial statements, with possible (ex-post) adjustments in case of material differences between actual performance and projections

Value Creation post-investment

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EBRD and ENEF have a strong commitment to **improving the corporate governance** of the companies they invest in and **increasing their value.** To do so, they would:

- Propose an **experienced industry expert/ banker** to sit on the Board of Directors of the company (if agreed) in order to advise on strategic issues
- Hire suitable **technical consultants** (if necessary) to help the company in the implementation of the project
- Encourage management to adopt rules and procedures for **good corporate governance and increased transparency** (IFRS accounting, etc.)
- Encourages management to commit to a **value creation plan** to achieve capital appreciation over time

As minority shareholders and financial investors, EBRD and ENEF would not interfere with the day-to-day management of the operations of the companies. Yet, they would look for **shared corporate governance** when it comes to **strategic and major financial issues**

Exit (1)

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When the company reaches maturity, ENEF will sell its stake, as its role in helping the company would have been achieved

The **exit method** as well as the time of the exit should be agreed in advance with the majority owners

Exit can be done in one of the following two ways:

- **Sale to a third party:** commercial sale (to a strategic investor), IPO, secondary buy-out or
- **Sale back to the original owner(s):** through put and call option agreement or re-leveraging of the company

Exit (2)

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When the exit is done through a **sale to a third party:**

- the other owners can decide to sell their stakes together with the EBRD (to maximize proceeds), but they are not required to do so and can retain control of the company
- the valuation is determined after negotiations with the potential suitors

When the exit is done through a **sale back to the original owners:**

- the valuation is usually based on the same methodology as at entry. In some instances also the same multiples' values (as at entry) can be applied

Hygeia Hospital Tirana – Albania

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Company Information

- Joint-stock company established for the purpose of constructing and operating a greenfield private hospital in Tirana

EBRD Finance

- EUR 10 million senior loan

Purpose of investment

- Refinance bridge financing provided by the sponsor to support project implementation
- Partly finance the purchase of new hospital equipment

Signed in

2010

HYGEIA GROUP
HYGEIA HOSPITAL TIRANA
General & Maternity Hospital

Bingo – Bosnia and Herzegovina

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Introduction to EBRD | LEF at a glance | Target transactions | Investment Process | Valuation, Value Creation and Exit | Case Studies

Signed in
2010

Company Information

- Limited liability company
- Second largest local retailer in BiH, with 34 supermarkets and 16 hypermarkets

EBRD Finance

- EUR 6.5 million senior loan

Purpose of investment

- New stores roll-out including:
  - site acquisition;
  - equipment costs; and
  - refurbishment/construction costs.

Data Centre Kriz – Croatia

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Company Information

- Limited liability company
- The company was founded in 2009 and is based in Jastrebarsko.

EBRD Finance

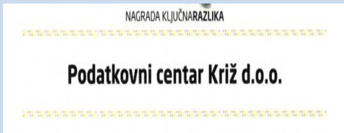
- EUR 2.0 million senior loan

Purpose of investment

- Construction of a 600sqm independent (carrier neutral) data centre with 250sqm business continuity and disaster recovery space

Signed in

2012



Tikves – FYR Macedonia

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Company Information

- Joint stock company listed on the local stock exchange
- Largest wine producer in South-Eastern Europe

EBRD Finance

- EUR 6 million of ordinary equity for a 23% stake
- EUR 2.5 million of working capital loan (provided in 2009)
- Exited in 2013

Purpose of investment

- Increase the higher value/branded wines in the company's portfolio
- Modernise facilities to improve quality and brand recognition
- Strengthen brand name and distribution to increase exports

Signed in
2008

TIKVEŠ
WINERY
MACEDONIA

Tulltorja – Kosovo

Signed in
2008

Company Information

- Limited liability company privatized in 2005
- Owned by 3 equal shareholders
- National leader for clay brick production

EBRD Finance

- EUR 5 million of ordinary equity for a 22.5% stake

Purpose of investment

- Purchase and install a new production line of bricks and clay blocks
- Strengthen market position

Codra Hospital – Montenegro

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Company Information

- Founded as a policlinic in 2001, is the first private hospital in Montenegro.

EBRD Finance

- EUR 1.0 million loan

Purpose of investment

- Opening of a maternity services ward to include deliveries and post-delivery care for mothers and new-borns
- A partial re-financing of an existing loan to improve the financing structure

Signed in

2013

CODRA Hospital

Forma Ideale – Serbia

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Company Information

- Limited liability company
- Producer of a wide range of furniture

EBRD Finance

- EUR 5+2 million equity investment

Purpose of investment

- Construction of a modern warehouse and logistics centre
- Restructuring of the company's balance sheet

Signed in
2010

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European Investment Bank

The EU bank

EUROPEAN INVESTMENT FUND

WB EDIF Western Balkans Enterprise Development and Innovation Facility

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European Commission

KFW DEG