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GENESIS CAPITAL

NEWSLETTER DECEMBER 2016

TOWARDS NEW INVESTMENTS

Looking back at the past twelve months, I must admit it has been a successful year for us.

As the greatest accomplishment of the recent period I see the closing of the fourth fund, which was completed at the highest size ("hard-cap") of EUR 82 million, while the investors' interest was even larger. Surely their demand has been also stimulated by the current environment of low interest rates, which has made the investment into private equity an interesting opportunity to achieve a reasonable return. However, as we all learned during the fundraising phase, the key aspect in the decision-making of investors was the fact that Genesis Capital has already had more than 17-year-old history of successful presence on the market and good results. I dare to say that currently we belong among the most successful private equity funds in the segment of small and middle sized enterprises not only in the Czech and Slovak Republic, but also on the European scale.

This was demonstrated also by the fact that by realization of investments in the still active GPEF II fund, we managed to repay the cost with realized return to the investors in an unusually short period of time, in the seventh year of the assumed ten-year long investment life of the fund, while there are still four companies remaining in the portfolio, which we gradually prepare for exit.

At present, we are in the „acquisition phase“, seeking investment opportunities that would fit into the portfolio of the new fund, which already completed one investment, a pharmaceutical company QUINTA-ANALYTICA. Considering the size of GPEF III fund, we will look at some investment opportunities also outside the borders of the Czech and Slovak Republic, such as Poland, Hungary or Austria.

In addition to all the rather good news, there are two other positive observations worth mentioning. First, our experience confirms that



JAN TAUBER,
MANAGING PARTNER OF GENESIS CAPITAL

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mentoring. First, our experience confirms that the term „private equity“ is becoming more familiar to a greater part of the public, especially to the owners and directors of companies, which could benefit from development capital. Second, the Czech private equity market has been gradually approaching the standards of developed markets in terms of investor base, with local institutional investors such as insurance companies and, hopefully, soon also pension funds investing in private equity.

CAPITAL PRESENTED AT
HOME AND ABROAD

NEW COLLEAGUES

NEWS

GPEF III FUND RAISED EUR 82 MILLION



Management of Genesis Capital presented the new fund (GPEF III) at a press conference. From left: partners Radan Hanzl, Jan Tauber and Ondřej Vičar

For equity investments into small and medium-sized enterprises in the Central Europe, GPEF III managed to raise more than CZK 2 billion (EUR 82 million). The first investment has already been completed, while the others are being negotiated.

Genesis Private Equity Fund III (GPEF III) is the fourth private equity fund advised by Genesis Capital. The launch of the fund was announced in August 2015 and already at its first close the fund reached the size of EUR 45 million. Investor appetite was substantial and by the end of summer this year, Genesis Capital informed the fund hit its "hard-cap" volume of more than CZK 2 billion, or EUR 82 million.

Among the first investors – similarly as in the case of previous funds – there were the Czech bank Česká spořitelna, European Investment Fund and eQ Private Equity. GPEF III was newly joined by IKS KB (member of Amundi Group), and two insurance companies Kooperativa and Česká podnikatelská pojišťovna (members of Vienna Insurance Group). Later, the LP base has been expanded by an internal pension fund of a large multinational corporation and a Czech family office.

The new Genesis fund has been for the first time also an opportunity for qualified private individuals to gain Czech and Slovak private equity exposure by investing in GPEF III, and thus in the local enterprises, through the fund of IKS KB, which was

established for qualified private banking clients of Komerční Banka (member of Societe Generale).

As a generalist private equity fund, GPEF III invests in companies across all sectors, with the exception of real estate, armaments, gambling, adult entertainment, and tobacco and liquor production. Already in the first half of this year, the fund acquired a majority stake in QUINTA ANALYTICA, when the original founders were in the process of exiting the company.

"We do not worry about a lack of investment opportunities," assures Ondřej Vičar, a partner of Genesis Capital. "We have observed that the number of investment options nearly doubled in the last year. Ongoing generational renewal is the major source of this development, as businessmen who established their companies usually in the 1990's are shifting their ownership to other entities. Genesis funds can offer such founders not only the possibility of a one-off or gradual sale of their companies, but also continuation of their further independent development."

GENESIS CAPITAL BECOMES THE MEMBER OF SLOVCA



By the end of this year, Genesis Capital has become a regular member of the Slovak Venture Capital and Private Equity Association (SLOVCA). It has been a further acknowledgement of the fact that the reach of Genesis Capital has not been limited by the borders of the Czech Republic.

Genesis has been active in the Slovak region already in its past investments, among the most prominent being the retailer of computer games and gaming consoles Brloh, which was an add-on acquisition to the Czech company JRC that is active in the same field, or the Bratislava-based company ETARGET, providing context online advertisement in several countries in the region of Central and Eastern Europe. At present, the fund GPEF II holds stake in the Slovak company 3070, which is engaged in design and production of retail equipment.

Similarly to the CVCA, the aim of SLOVCA has been to raise awareness of alternative financing options by the means of development capital and to promote interests of its members.

EXITS

GPEF II SOLD ITS SHARE IN ROLTECHNIK TO THE INTERNATIONAL GROUP ROTH INDUSTRIES





Roltechnik is currently the leader in its market segment in the Czech and Slovak markets and is exporting over half of its production to more than 20 European countries.

The ownership of an important Czech manufacturer of sanitary equipment, Roltechnik, changed in mid-July of this year. Genesis Private Equity Fund II (GPEF II), owning 90% of the company, sold its stake to the international group Roth Industries. Together with Genesis, also the senior managers of the company sold their shares and Roth Industries thus became the sole owner of the company.

More than twenty-year long history, good business results and prospects for further growth were the main reasons why Roth Industries – a strong group headquartered in Germany – became interested in Roltechnik. One of its divisions focuses on sanitary systems, and the Czech manufacturer fits well into its portfolio.

„We have a long lasting cooperation, we know the company, people and performance very well. Business principles and company cultures are quite similar. This is a perfect base for a smooth and fast integration,“ said Matthias Donges, Chief Executive Officer of Roth Industries, and added: *„Roltechnik has a huge reputation in Eastern Europe and an excellent network in the professional market.“*

Roltechnik is an important manufacturer of shower stalls and other bathroom equipment. The entry of Genesis Funds into the Company in 2008 was a typical example of how to solve the succession within a business. The original owner wanted to exit the firm and even selected his successor for the position of CEO. However, a strong financial partner was needed to take over the business and help with its further development. The fund made the acquisition at the time of negative market sentiment, however, despite the environment the company managed to withstand the crisis and even accelerate further growth.

See more:

<http://genesis.cz/news/genesis-is-exiting-from-another-company-international-group-roth-industries-acquires-roltechnik>



ČEZ ESCO, MEMBER OF THE ČEZ GROUP, ACQUIRES AZ KLIMA

During the five years with GPEF II, the leading position of AZ KLIMA on the Czech ventilation and air conditioning market strengthened substantially.

ČEZ ESCO, member of the ČEZ Group, agreed with Genesis Private Equity Fund II (GPEF II) to acquire the majority share in AZ KLIMA. Following also the sale of the stake of minority shareholders, ČEZ ESCO became the sole owner of the company.

AZ KLIMA provides complex services in the area of technical facility management and air-conditioning. GPEF II held the majority share in AZ KLIMA for five years during which the sales of the company grew by 50 % and the firm cemented its leading position in the market.

The story of AZ KLIMA is a classic example of a successful succession within the company. It was founded in 1992 by Miroslav Čížek, who was 38 at that time, as a company focusing in particular on detailed design activities. Jaroslav Jánský became the second partner in AZ KLIMA later on. After almost twenty years from founding of AZ KLIMA, both partners decided to sell a majority stake in the company to a financial investor for a temporary period in order to prepare the firm for a new strategic owner. GPEF II acquired a 68.5% stake in AZ KLIMA in 2011, while the remaining part was left at the ownership of the founder and management of AZ KLIMA.

By acquisition of AZ KLIMA, ČEZ ESCO extended its portfolio of energy services by a segment, which had been so far missing. Kamil Čermák, CEO of ČEZ ESCO, said: „AZ KLIMA is no. 1 player on the Czech market in the field of air-conditioning and ventilation systems technology, boasting over 4,000 reference projects. We have already cooperated with AZ KLIMA prior to the acquisition as ventilation and air-conditioning are something our clients often have to deal with.”

See more: <http://genesis.cz/news/genesis-funds-selling-az-klima-to-cez-esco-1>





SWELL BECOMES PART OF THE INTERNATIONAL GROUP ALTRAN

SWELL, after more than a 20-year long history, has grown into a respected research and development partner for companies and suppliers in the European automotive industry.

Genesis Private Equity Fund II (GPEF II) sold its 96% stake in the company SWELL to the international group Altran. Together with GPEF II also the executive managers of SWELL sold their minority stake, and Altran became the sole owner of the company.

Since its establishment in 1993, SWELL has developed into one of the leading providers of services in the field of applied research and development, construction and testing for automotive industry in the Czech Republic. The company's most important long-term customer has been Škoda Auto, while the other important clients include Magna, Hella, Continental, Bosch, Honeywell, or Iveco.

These were among the main reasons for acquisition by Altran, the world's largest provider of high-tech engineering and construction services for a wide range of industries, including automotive and aerospace, headquartered in Paris.

The entry of Genesis into Swell in 2014 represented another example of generation succession. The original founders intended to exit the company and Genesis fund acquired their stakes. „Under the ownership of Genesis we set a new strategy and considerably accelerated the development of the company.” said Lucie Baleková, the chairwoman of SWELL's board, and added that the third phase of the construction of the Development Services Centre had been finalizing, which would significantly expand the capacity of offered services.

See more:

<http://www.genesis.cz/news/genesis-fund-sells-swell-the-new-strategic-owner-will-be-the-international-group-altran>

PRESENTATIONS

PARTNERS OF GENESIS CAPITAL
PRESENTED AT HOME AND ABROAD



Jan Tauber, managing partner of Genesis Capital, presented twice this year at Prague Capital Market Summit.

After more than seventeen years of successful presence in the market, Genesis Capital has built a position of an important player in the field of private equity. Thanks to its growing prestige, its representatives are being frequently invited to attend specialized conferences, not only in the Czech Republic, but also in other European countries.

One of the most important events of such kind was the **CEE M&A and Private Equity Forum**, which was organized by the media and analytical company Mergermarket in September in Warsaw. The topics discussed included the current trends in mergers and acquisitions, private equity industry, and also general economic developments in Europe. Managing Partner of Genesis Capital Jan Tauber participated in the conference as a keynote speaker, presenting the current macroeconomic development in the Central European region. Several tens of renowned economists and representatives of private equity funds, banks and advisory companies attended the conference as speakers, including also Ondřej Vičar, a partner of Genesis Capital. The auditorium counted several hundreds of attendees.





Representatives of Genesis Capital participated in the conference in Warsaw as speakers. Ondřej Vičar, partner of Genesis Capital, second from the right

The event titled **Private Equity – A Business Model with Long-Term Superior Return** was organized by the Czech Private Equity and Venture Capital Association (CVCA) in October in Prague. The event was co-organized by Genesis Capital. Radan Hanzl, one of its partners, gave the opening presentation on the private equity business model. The key international speaker was Marco Natoli from the European Investment Fund (EIF), who presented the results of EIF based on its long-term experience with private equity investing in the Central and Eastern European region. Also, it has been the second time EIF has become the investor in Genesis fund (GPEF III). Participants in the following panel discussion, representatives of international and Czech institutional investors, recognized private equity as an attractive investment class with a long-term return and as a suitable diversification tool for institutional investors.



Radan Hanzl, partner of Genesis Capital, presented at the CVCA event in Prague.

Jan Tauber, Managing Partner of Genesis Capital, spoke at the conference **Prague Capital Market Summit** twice during the current year (March, October). Both events were focused on different types of corporate financing, while private equity was one of them. The discussion dealt primarily with functioning of capital markets, foreign investments, M&A transactions and activity of venture capital and private equity funds. At each conference, twenty speakers presented and more than 200 private and institutional investors, banks, representatives of advisory companies and state institutions participated. During the March event, Jan Tauber focused on the presentation of the new fund GPEF III from the point of fundraising, changes in the LP structure and importance of high quality management for the portfolio companies. In the October event, the discussion was mainly focused on the differences among individual funds.

TEAM

NEW COLLEAGUES

Genesis Capital team added two new members this year. David Hort and Renáta

Ďurčová joined the team at the positions of Investment Analysts.



Renáta Ďurčová
Investment Analyst

Renáta previously worked as a Financial Market Analyst in Česká spořitelna.

She studied Applied Economics at the CERGE-EI Institute of Economics of Charles University in Prague, specialising in macroeconomics and financial economics. During her studies, she gained experiences as a trainee in KPMG company, PwC and at Analysis Department of the Government Office of Czech Republic. She speaks Czech, English and French.



David Hort
Investment Analyst

David previously worked in the field of investment banking and corporate finance for the Erste Bank Group and consulting company BDO.

He is a graduate of the University of Economics in Prague, Faculty of Finance and Accounting. David speaks Czech, English and German.

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