

**International
Institute of
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**UKRAINE'S CHANGING PLACE IN THE
GLOBAL ECONOMY**

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Private Equity and Venture Capital Investments in Ukraine: Five Reasons to Consider and Five Remaining Problems to be Transformed into Opportunities

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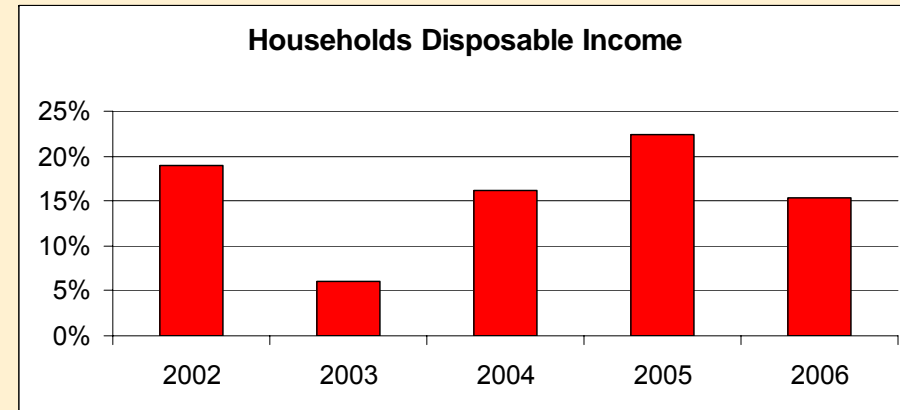
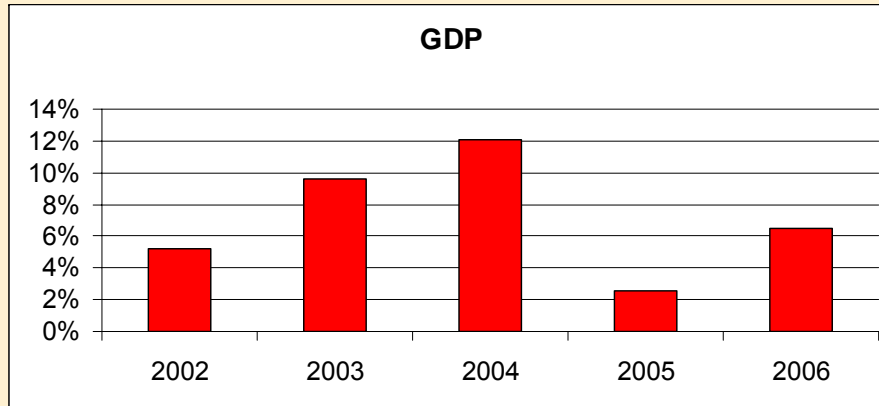
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Reason #1: Growth proves to be sustainable

- ⇒ continuous growth of the economy especially in “new” industries and businesses (appeared in 90s) which are oriented not only toward growing domestic demand but also export markets
- ⇒ substantial growth of households’ income and spending which appears to continue in subsequent years (IMF: “a sustained consumption boom ... has contributed to better-than-expected growth”)
- ⇒ macroeconomic conditions are stable and improving (IMF: “the economy now appears better balanced”)

Some growth figures





Reason #2: Increasing involvement into global economy allows to utilize existing competitive advantages

- ⇒ WTO accession and possible trade agreement with EU
- ⇒ Geographic location creates a lot of potential
- ⇒ Educated workforce and talented ambitious entrepreneurs and managers
- ⇒ More and more examples of success at export markets



Reason #3: Gradually improving institutional environment

- ⇒ Several new laws adopted in 2006 (one of the important is the new Law on Securities and Capital Markets)
- ⇒ Investors' protection is becoming a true priority for the government
- ⇒ Logical and consistent (while somewhat different from world practices) legal environment for domestic venture capital industry
- ⇒ Growing number of successful projects implemented by Western PE funds shows existing possibilities for success



Reason #4: Businesses are still undercapitalized and undervalued

- ⇒ Rapid growth creates substantial demand for equity financing especially for businesses with constrained debt capacity
- ⇒ Valuations for Ukrainian businesses are still substantially below other countries of Central and Eastern Europe
- ⇒ Still existing potential for long-term increase in prices for land and real estate



Reason #5: “Entrepreneurial” nature of new businesses and readiness to consider venture capital as a tool of increasing capital base for future growth

- ⇒ Recent growth was supported not only by traditional sectors such as metallurgy but also in large extent by new mid-cap businesses oriented both toward growing domestic demand and foreign markets
- ⇒ Entrepreneurial activity is supported by continuing structural changes in the economy, cultural traditions, qualified business leaders



Problem #1: Still not very supporting legal environment including corporate governance regulations and practices

- ⇒ A new Law On Joint-Stock Companies, which is expected to improve shareholders' protection, is not adopted by the Parliament yet
- ⇒ Law enforcement is still not efficient enough
- ⇒ Level of corruption is still high



Problem #2: Underdeveloped domestic stock market constrains possibilities for exit

- ⇒ Domestic capital market is still illiquid and narrow although situation gradually improves due to growth of pension and investment funds, growing presence of foreign investors and improvements in market microstructure
- ⇒ The main way of exit is still selling to strategic buyer although foreign IPO becomes more realistic



Problem #3: Narrow set of instruments to structure the deal

- ⇒ Ordinary shares is a primary (and very often the only) instrument for equity investment
constraining possibilities of flexible risk sharing



Problem #4: Absence of developed system of seed investments financed by government and/or corporations

⇒ Despite existing potential for technology investment, absence of government support for seed investments in technology sector doesn't allow to use existing opportunities



Problem #5: Weak domestic PE/VC industry mainly due to small investment base

- ⇒ Domestic PE industry is gradually developing being concentrated mainly on buyout deals and real estate investment
- ⇒ Investment base for PE industry is still narrow
- ⇒ Lack of expertise and good industry standards



Conclusion

- ⇒ There are several real and significant reasons to look at PE/VC opportunities in Ukraine
- ⇒ Remaining problems seem to be addressed, creating additional opportunities for high returns with reasonable risk

Thank you for your attention !

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