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Introduction

We are pleased to present this report on the private equity market in Poland. The report aims to show a comprehensive picture of the situation on the Polish PE market and the trends which are likely to influence its development in the coming years.

In our first report on the PE sector in Poland, released in 2014, we stated that Poland is the most attractive market for private equity funds operating in Central and Eastern Europe. The most recent macroeconomic data and statistics concerning the funds’ activity confirm that this finding continues to hold true. In 2015, the value of PE investments in Poland exceeded EUR 800 million, which – in terms of value – constituted more than half of all private equity investments in Central and Eastern Europe, with Poland holding a share of 35% in the region’s total GDP. The funds which took part in our survey mostly expressed positive opinions about the conditions on the Polish market and on its growth prospects. Nearly 70% of the surveyed funds believe that the coming years will see an increasing number of attractive targets on the Polish market and almost 50% expect the number of transactions to go up in future.

In this year’s report, we conducted an analysis which allowed us to assess the approximate size of the PE sector in Poland and its significance for the economy. Our survey incorporated nearly 180 companies which are currently in the portfolios of over 30 private equity funds. We estimate that portfolio companies in Poland employ over 100,000 people and generate annual revenues of PLN 45 billion. Undoubtedly, in future years, the importance of portfolio companies will increase further as the Polish market grows more attractive for PE funds.

We would like to extend our thanks to all organisations, funds and individuals who actively participated in the survey and, as such, helped us to prepare this report. We do hope that the report will prove to be a useful source of information, giving readers a solid picture of the PE market in Poland and the opportunities it offers.

Rafal Wiza
Partner, Head of Private Equity
KPMG in Poland
Foreword

One cannot overestimate the impact that PE funds have on the economic growth of the countries they invest in. Given their business model, PE funds usually invest in the most innovative or dynamically growing industries. They support enterprises not only with their capital but also with expertise in areas such as business management and corporate governance, industry insight as well as experience and contacts on international markets. This additional substantive support is among the reasons why private equity is a good alternative to an IPO or debt financing for companies looking for further growth opportunities.

Business owners in Poland have grown increasingly aware of the benefits that result from cooperating with private equity funds. The ever-improving perception of such funds has been propelled by the experiences of portfolio companies. As the results of the KPMG survey confirm, business owners appreciate, among others, the funds’ interest in long-term growth strategies instead of short-term profits, an atmosphere of mutual trust and the large degree of leeway that the funds grant the management board of their portfolio companies. Today, the list of portfolio companies in Poland comprises many well-known enterprises, many of them leaders in their respective industries. This year’s report attempts to estimate the size of the PE sector in Poland. KPMG’s analysis suggests that portfolio companies give jobs to dozens of thousands of people and generate annual revenues of a few dozen billion zlotys. Worth noting is also the venture capital sector, which escapes statistical analysis because of the multitude of small companies and start-ups. While the share of those companies in the generated revenues and employment is presumably small, they play a crucial role as incubators of innovation, an essential element of Poland’s continued economic growth.

Private equity funds contribute significantly to this growth and the odds are that the scale of their business will grow in the near future. The opinions expressed by the funds surveyed by KPMG indicate that the Polish private equity market has very strong growth prospects. I am happy to be able to invite you to read this interesting report.

Barbara Nowakowska
Managing Director
PSIK – Polish Private Equity and Venture Capital Association
Key findings

In 2015, Poland’s share in the total value of PE investments in CEE countries totalled 53%.

Poland is currently the most important market for PE funds interested in investments in Central and Eastern Europe. In 2015, Poland’s share in the total GDP of all CEE countries amounted to 35%, with a 31% share in the total population of the region.

In 2015, the value of PE investments in Poland amounted to EUR 803.5 million.

This was the best result in at least nine years. In comparison with 2014, the value of PE investments more than tripled. In 2015, the value of PE investments in relation to GDP amounted to 0.19% in Poland. In this respect, Poland ranked 14th in Europe, coming close to countries such as Switzerland (0.21%) and Germany (0.22%).

Venture capital dominates in terms of the number of deals.

In 2014, venture capital made up 69% of the total number of transactions, with a share of 61% in 2015. In terms of value, the most important transactions were those at later stages of development, primarily growth capital and buyout. Last year, their share in the total value of PE transactions was 98%, with 91% two years ago.

Most portfolio companies in Poland operate in TMT and in industrial manufacturing.

KPMG’s analysis shows that technology, media and communications comprises 21% of all companies in Poland that are currently in the portfolio of PE funds (excluding venture capital). Almost the same share belongs to companies from the industrial manufacturing sector (18%), with the third position held by consumer goods and retail companies (14%).

In 2015, PE portfolio companies employed a total of over 100 thousand people and their revenues reached PLN 45 billion.

KPMG’s analysis included nearly 180 companies from the portfolios of more than 30 private equity funds. The funds’ portfolios comprise not only medium-sized companies but also leading companies from many industries, employing thousands of people and generating sales revenues of several billion PLN.
68% of the surveyed PE funds expect that the number of attractive acquisition targets on the Polish market will increase in the near future.

According to the respondents, the most attractive investment sectors in the coming years will include consumer goods, business services, industrial manufacturing, technology and media. The medical and pharmaceutical sectors will lose importance.

48% of the surveyed PE funds believe that the number of transactions on the Polish market will increase in the next two years.

Meanwhile, nearly 30% of the funds do not expect any major changes, and only 20% of the surveyed funds believe that the number of transactions will decrease in the future. At the same time, the largest proportion of the funds believe that the average value of transactions will remain similar to the current level.

Medium-sized companies in the growth phase will be the most attractive segment.

71% of the surveyed funds believe that the investment appeal of companies in this segment will increase in the coming years, and no fund expects a decline in their attractiveness. Positive opinions are also expressed about start-ups: 57% of the respondents believe that such companies will grow in popularity in the coming years. Only 10% believe that such targets will become less attractive.

71% of the surveyed PE funds operating on the Polish market have no problems with obtaining debt financing.

The remainder of the respondents believe that obtaining investment loans in Poland is rather difficult, but nevertheless attractive projects have a high chance of gaining the appropriate level of financing. Only 4% of the surveyed funds said that the lack of debt financing was a significant barrier to the completion of deals.

Nearly 60% of the surveyed funds claim that they grow at least half of their companies through exports.

The average share of current portfolio companies developed through international expansion was 59%. Half of the surveyed PE funds said that thanks to good growth concepts, international networking and the implementation of proven strategies the average increase in revenues from exports exceeded 25% after three years from the acquisition of a portfolio company.

39% of the surveyed owners and former owners of portfolio companies said that their PE fund gave them support in the form of expertise in the field of management, finance or marketing.

This was the most frequently mentioned form of support after provision of capital (78%). Nearly one-fifth of the respondents also chose the following responses: support in the expansion on the domestic market through organic growth as well as mergers and acquisitions, providing industry knowledge to enable growth, and the introduction of corporate governance rules.
About this report

This report aims to present the current situation on the PE market in Poland. In addition to an analysis of investment activity on the Polish market in 2014–2015, it also contains information on the size of the private equity sector in our country. The core part of the report consists in the analysis of the results of a survey conducted among 26 funds operating in Poland. Respondents’ answers enable us to understand the current situation on the Polish market and identify the major trends that will influence its development in the coming years.

The first part of the publication contains a summary of Poland’s macroeconomic situation in the context of the CEE region with an emphasis on factors that influence the appeal of these markets for PE funds. This chapter is based on desk research, comprising the secondary data published, e.g., by Eurostat, the European Commission and the International Monetary Fund.

The second part of the report presents an analysis of the activity of private equity funds on the Polish market in 2014–2015. It shows the structure of investments by phase (e.g. venture capital, expansion/growth) and sector or industry. The analysis is based on data published by the European Private Equity & Venture Capital Association (EVCA). This chapter also includes information on the size of the private equity sector in Poland and its importance for the Polish economy. Based on our own analysis of portfolios held by more than 30 major funds on the Polish market, we estimated the total employment and revenues of Polish portfolio companies. In addition, the report shows the structure of portfolio companies by year of investment, sector and industry. The analysis is based, among others, on information from financial statements published by the portfolio companies as well as financial data provided by the funds.

The third part of the report is based on a survey held among 26 PE funds operating in Poland, conducted between February and April 2016. The funds were asked, among others, about the factors influencing the appeal of the PE market in Poland, as well as the growth prospects of the Polish market in the coming years.

The fourth part of the report is based on a study of 18 current and former owners and co-owners of Polish portfolio companies which were targets for private equity funds. As part of the study, the respondents were asked about the reasons behind the decision to establish co-operation with a private equity fund, forms of support received and other issues related to the co-operation with PE funds.

The fifth section presents case studies on selected PE investments which took place in Poland or in Central and Eastern Europe. The case studies include, among others, a description of actions taken by the funds and the effects of those actions. This chapter was written on the basis of data and information provided by PE funds.
Poland as the main market of the CEE region

For private equity funds which plan to invest in Central and Eastern Europe, Poland is usually the first choice. Poland’s share in the GDP of all countries in the region is higher than one third. The analysis of the most important macroeconomic indicators shows why Poland will continue to be an attractive market for PE funds which plan to invest in innovative, fast-growing companies.

The countries which are part of the Central and Eastern Europe region (CEE) have unflagging appeal for investors from around the world. This region is among the fastest growing areas on the continent: on the one hand, it stands out in terms of the conducive business environment and, on the other hand, stable domestic demand contributes to systematic growth. For the purposes of this report, the following countries have been included in the CEE region: Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia. As many as 11 of these countries are members of the European Union, which ensures stability and an environment which is conducive to doing business in this area.

As the largest economy in Central and Eastern Europe, Poland plays a leading role in the region. In 2015, Poland’s share in the GDP of all CEE countries was 35%, while its share population in the region’s total population amounted to 31%. In addition, Poland is among the countries with a growing economy, while being the largest market among all CEE countries.
At the same time, Poland, as well as the entire CEE region, still has considerable potential for growth. The GDP per capita in Poland and other CEE countries is still much lower than the EU average. The societies of Central and Eastern Europe strive to offset this imbalance, and this factor continues to be an important driver of their economic growth. Also in the future, many countries of Central and Eastern Europe will benefit from the assets that enabled them to achieve exceptionally rapid economic growth in the past 25 years: well-educated yet relatively inexpensive labour, pro-investment economic policies (such as tax incentives for investors), support for innovation and rapidly expanding infrastructure.
Poland’s dynamic growth can be illustrated by the example of average disposable income, which is the total of current household income minus advance payments towards personal income tax and social insurance contributions. In Poland, the average disposable income grows faster with every year, and Poland is among CEE leaders in this respect. Another visible trend is the faster growth rate in comparison to developed economies such as Germany or the United Kingdom. According to forecasts, this trend will continue over the next years. The growing consumption of a society on its way to prosperity creates ideal growth prospects for innovative and professionally managed companies whose products have a chance to fill undeveloped market niches.

Compared to other European countries, Poland is also characterized by real GDP growth, which did not falter even in 2008–2013, when most countries saw a significant decline in that respect. Poland is the only member of the EU which showed GDP growth each year during that period. In addition, Poland’s GDP increased by +3.6% in 2015, which is one of the best results for all European countries. The growth rate of the gross domestic product in Poland was much higher than the average for the eurozone countries (+1.6% in 2015), and also higher than the growth in all other CEE countries except Romania (3.6%). European Commission forecasts indicate that the growth rate in Poland will remain on the same level (3.5%) in 2016–2017. It is expected that a substantial increase in investment and industrial production will be the main driving force behind this growth. At the same time, the average growth in the euro area will be 1.7% in 2016 and 1.9% in 2017, with 1.9% and 2.0% respectively for the European Union.
The growth of the Polish economy and Polish companies has been also propelled by exports, whose nominal value between the country’s EU accession and the end of 2015 has tripled: from EUR 60.3 billion in 2004 to EUR 178.7 billion. In 2009–2015, the average annual growth rate was 10.6%. In 2015 alone, the value of exports rose by 78%, and for the first time, Poland achieved a surplus in foreign trade, amounting to nearly EUR 4 billion. High quality services and products coupled with relatively low labour costs enable Polish companies to successfully compete on the EU market and beyond. For private equity funds which invest in Polish companies, this means that when building the value of their portfolio companies they can leverage not only the rapidly growing domestic demand but also the possibilities of international expansion and export growth.

**Change in GDP y/y in Poland and the eurozone (%)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6</td>
<td>2.1</td>
<td>3.7</td>
<td>5</td>
<td>1.6</td>
<td>1.3</td>
<td>0.9</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>-0.9</td>
<td>-0.3</td>
<td>3.5</td>
<td>1.9</td>
<td>3.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysis by KPMG in Poland based on Eurostat data

**Value of Poland’s exports (in EUR billion)**

- **2009**: 97.9
- **2010**: 120.5
- **2011**: 135.6
- **2012**: 144.3
- **2013**: 154.3
- **2014**: 165.7
- **2015**: 178.7

CAGR: 10.6%

Source: Analysis by KPMG in Poland based on Eurostat data
Analysis of the PE sector in Poland

In 2015, Poland accounted for more than half of all private equity transactions in Central and Eastern Europe. In 2014–2015, the funds operating on the Polish market invested particularly frequently in companies operating in sectors such as consumer electronics, technology, media and telecommunications, as well as industrial manufacturing, consumer goods and business services. KPMG estimates that the Polish portfolio companies held by private equity funds (excluding companies in the venture capital phase) employ a total of over 100 thousand people and generate revenues of PLN 45 billion.

4.1 Activity of private equity funds

In terms of the value of private equity investments in Poland, 2015 was the best year in at least nine years. According to the European Private Equity & Venture Capital Association (EVCA), the value of PE investments in Poland in 2015 reached approx. EUR 800 million. This was about 7% higher than the value of exit transactions, which amounted to just over EUR 750 million. This marks a major recovery in investment operations on the Polish market after several years when funds operating in Poland focused primarily on portfolio management and exits from ongoing investments.

As a result, starting from 2012, the value of exit transactions grew steadily, reaching a level higher than the value of investments by 2014. In turn, in 2015 investments exceeded exit transactions by more than EUR 50 million.
At the same time, recent years saw dynamic growth in the venture capital sector. The value of such investments rose from EUR 9.1 million in 2012 to EUR 19.6 million in 2015. Given their characteristics, venture capital investments have a dominant share in the number of portfolio companies (61% of all PE transactions in 2015) while playing a small role in terms of investment value (with a share of just 2% in 2015).

The dynamic growth of investment activity in Poland confirms that our country remains by far the most important PE market in Central and Eastern Europe. In 2015, Poland’s share in the GDP of all CEE countries was 35%, with a 31% share in the region’s total population. At the same time, the value share held by the Polish market in PE investments in all CEE countries was 53%.

Value of PE investments and exit transactions in Poland (in EUR million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
<th>Exit transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>473,0</td>
<td>52,9</td>
</tr>
<tr>
<td>2013</td>
<td>380,0</td>
<td>284,7</td>
</tr>
<tr>
<td>2014</td>
<td>251,4</td>
<td>530,1</td>
</tr>
<tr>
<td>2015</td>
<td>803,5</td>
<td>752,3</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on EVCA data

Poland in the context of the CEE region

- Poland’s share in the population of CEE countries, 2015: 31%
- Poland’s share in the GDP of CEE countries, 2015: 35%
- Poland’s share in PE investments in CEE countries, 2015: 53%

Source: KPMG in Poland based on Eurostat and EVCA data
Poland and other CEE countries are young private equity markets, and thus their value of PE investments is significantly lower compared with most Western European countries. However, as GDP per capita grows further, PE investments are likely to increase. In 2015, the value of PE investments in relation to GDP in Poland amounted to 0.19%, a much better result than in previous years. Poland ranked 14th in Europe, ahead of Italy (0.15%) and coming closer to countries such as Switzerland (0.21%) or Germany (0.22%). At the same time, Poland took a much higher position than any of the other countries of Central and Eastern Europe. Meanwhile, all the countries of that region lag far behind European leaders: Luxembourg (1.25% of GDP), Denmark (0.63%), Finland and the Netherlands (both 50%) and the UK (0.48%). This reflects the high growth potential of the CEE region.

PE investment value in relation to GDP, 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>1.25%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.63%</td>
</tr>
<tr>
<td>Finland</td>
<td>0.50%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>0.50%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.48%</td>
</tr>
<tr>
<td>Norway</td>
<td>0.46%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.38%</td>
</tr>
<tr>
<td>France</td>
<td>0.38%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.34%</td>
</tr>
<tr>
<td>Austria</td>
<td>0.32%</td>
</tr>
<tr>
<td>Ireland</td>
<td>0.31%</td>
</tr>
<tr>
<td>Germany</td>
<td>0.22%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.21%</td>
</tr>
<tr>
<td>Poland</td>
<td>0.19%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.15%</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.15%</td>
</tr>
<tr>
<td>Greece</td>
<td>0.14%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.14%</td>
</tr>
<tr>
<td>Balrics</td>
<td>0.12%</td>
</tr>
<tr>
<td>Other CEE countries</td>
<td>0.12%</td>
</tr>
<tr>
<td>Romania</td>
<td>0.09%</td>
</tr>
<tr>
<td>Portugal</td>
<td>0.08%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>0.06%</td>
</tr>
<tr>
<td>Ukraine</td>
<td>0.02%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on Eurostat and EVCA data
4.2 Transactions in the Polish PE market in 2014-2015

In 2015, the value of PE investments in Poland amounted to EUR 803.5 million, which marks a more than threefold increase compared to 2014 (EUR 251.4 million). According to the EVCA, nearly 80 transactions were concluded in 2014, while 2015 saw more than 100 completed deals. In terms of the number of investments, the dominant role was played by venture capital investments: in 2014, they were responsible for 69% of all transactions, with a share of 61% in 2015. In terms of value, the most important role was played by transactions at later stages of development, primarily growth capital and buyout investments. Last year, their share in the total value of PE transactions reached 98%, with 91% two years ago.

When analysing PE investments without venture capital, we can see the prevalence of buyout transactions. In 2015, half of all transactions on the Polish market belonged to this category, with a share of 46% in 2014. A similar level was recorded for growth investments. Refinancing transactions accounted for only a few percent of all transactions. According to the EVCA classification, their share amounted to 4% in 2014 and 3% in 2015. Buyouts prevail not only in terms of volume but also in terms of value. In 2014, they accounted for more than 70% of the total investment value on the Polish PE market, reaching nearly 90% in 2015.
In the case of venture capital, the most important investments are those in start-ups, both in terms of number and value. In 2014–2015, their share in all venture capital investments amounted to approx. 45% in terms of volume. At the same time, they accounted for approx. 40–50% of venture capital transaction value. Particularly noteworthy is the growing importance of seed capital investments, i.e. investments in entities that are at a very early stage of development, looking for funds to finance their initial ideas. For obvious reasons, their importance in terms of transaction value is small, but there is a steady growth in the number of seed capital investments. Before 2012, the Polish market had only a handful of investments from this category, but with the emergence of several specialized VC funds in Poland, their number increased rapidly. As a result, in 2014, they accounted for a quarter of all VC transactions, with 44% in 2015.

As regards companies where PE funds decided to put their money in 2014–2015, the largest group operate in the field of computers and consumer electronics as well as TMT (technology, media and telecommunications). Other important sectors include business services, industrial manufacturing, medicine and pharmacy. It is important to keep in mind that the large share of consumer electronics results from the large number of venture capital investments in this sector. Considering investments at later stages of development (buyout, growth and refinancing) only, the share of this sector is still important but smaller (18% in 2015, 9% in 2014). On the other hand, a higher proportion is held by sectors such as industrial products (15% in 2015, 17% in 2014), consumer goods and retail sales (15% and 13% respectively). In 2014–2015, sectors of the lowest importance in terms of transaction volume included agriculture and food production as well as chemicals, all of which attracted just a handful of investments.

In terms of value, two dominant sectors emerge, which results from the large value of individual investments. In 2014, the TMT sector was responsible for 46% of transactions on the Polish market, with the power sector taking precedence in 2015, with a share of 54%. Considerable resources were also invested in sectors such as industrial manufacturing, retail trade and consumer goods.

It is important to bear in mind that the considerable fluctuations between 2014 and 2015 resulted from significant values of individual transactions.
Share of various sectors in PE investments by number of investments

- Business services: 16% (2015) vs. 12% (2014)
- Information technologies, media and communication: 11% (2015) vs. 17% (2014)
- Medicine and pharmaceuticals: 10% (2015) vs. 5% (2014)
- Industrial manufacturing: 8% (2015) vs. 8% (2014)
- Retail trade and consumer goods: 8% (2015) vs. 8% (2014)
- Energy sector: 7% (2015) vs. 5% (2014)
- Consumer services: 5% (2015) vs. 12% (2014)
- Chemicals: 4% (2015) vs. 3% (2014)
- Transport and logistics: 4% (2015) vs. 0% (2014)
- Agriculture and food production: 3% (2015) vs. 0% (2014)
- Financial services: 2% (2015) vs. 8% (2014)
- Building construction and real estate: 1% (2015) vs. 0% (2014)

Source: KPMG in Poland based on EVCA data
Shares of various sectors in PE investments by value of investments

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy sector</td>
<td>8%</td>
<td>54%</td>
</tr>
<tr>
<td>Retail trade and consumer goods</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Transport and logistics</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Financial services</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Industrial manufacturing</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Computers and consumer electronics</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Information technologies, media and communication</td>
<td>6%</td>
<td>46%</td>
</tr>
<tr>
<td>Business services</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Agriculture and food production</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Consumer services</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Medicine and pharmaceuticals</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Building construction and real estate</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on EVCA data
4.3 Size and characteristics of the private equity sector in Poland

In order to estimate the size and structure of the private equity sector in Poland, we have analysed the portfolios of 32 private equity funds, which have a local investment team in Poland, and which had at least one Polish company in their portfolio at the end of April 2016. Our analysis excluded funds specialising in venture capital investments due to the very limited availability of data on such companies and their relatively low importance in terms of revenues and employment. We analysed almost 180 companies which were held in the portfolio of the surveyed funds at the end of April 2016. The PE market in Poland is comparatively young, hence it is characterised by a relatively low average number of portfolio companies compared to more developed PE markets, e.g. Western Europe, Scandinavia and the United States.

Nearly a half of the surveyed funds held one to three companies in their portfolio. Just under 40% had 4 to 9 active investments, and only 15% of the surveyed funds had 10 or more companies in their current portfolio.

Most of the analysed portfolio companies have been held by the surveyed funds for a relatively short time. For 37% of companies, the investment took place in 2014–2016. The same percentage of companies were added to the funds’ portfolio in 2011–2013. Almost a fifth of the studied companies began working with their current fund in 2008–2010, and less than 10% did so before 2008.

It is important to remember that the statistics relate to the companies’ current private equity funds and do not reveal when companies entered a PE fund’s portfolio for the first time (e.g. a company may have been purchased by a fund from another PE fund).

Structure of analysed funds by the number of portfolio companies

- 1 to 3 companies: 47%
- 4 to 6 companies: 25%
- 7 to 9 companies: 13%
- 10+ companies: 15%

Source: KPMG in Poland based on the analysis of PE funds and portfolio companies.
The structure of portfolio companies in terms of industry reflects the structure of transactions which took place on the Polish market in the last ten years. The most numerous companies hail from information technology, media and communications. Almost the same share is made up by companies operating in industrial manufacturing. The third position is held by companies from the retail sector and consumer goods, while companies operating in the field of medicine and pharmaceuticals take the fourth place. These four sectors cover two thirds of all studied portfolio companies. Other important sectors, with a respective share of nearly 10%, include business services, as well as agriculture and food production.

Source: KPMG in Poland based on the analysis of PE funds and portfolio companies
Based on data provided by the funds or derived from commercial databases and financial statements, we estimate that the companies which were in the portfolio of the studied PE funds at the end of April 2016 employed a total of 100,800 people in 2015. According to the analysed financial data and KPMG estimates, the analysed portfolio companies achieved revenues of PLN 44.9 billion in 2015. The analysis shows the high importance of PE funds for Poland’s economic growth. The list of portfolio companies includes, among others, well-known retailers, large companies from the industrial manufacturing sector, and leading companies in industries such as technology and media, communications, medicine and logistics. They employ several thousand people and achieve revenues of several billion zlotys per year.

At the same time, PE funds invest in mid-sized companies, which, in many cases, offer innovative products and services and are increasingly successful, not only in Poland but also in foreign markets.

**Total employment and revenues of analysed portfolio companies in 2015**

- **PLN 44.933 million**
- **100,799 people**

Source: KPMG in Poland based on the analysis of PE funds and portfolio companies
Results of the survey among private equity funds in Poland

Private equity funds have retained their optimism about the growth potential of the Polish market. Two thirds of the respondents believe that the number of attractive acquisition targets will increase in the next two years. Only 4% are afraid that Poland will have fewer potential acquisition targets in comparison with today’s situation.

5.1 Characteristics of PE funds

A total of 26 funds took part in the KPMG survey. Together, they represent a significant part of the private equity sector in Poland. The survey included both funds of local importance as well as larger, international players. One-fourth of the PE funds accumulated up to EUR 100 million in their current investment vehicle(s), one third have from EUR 100 to 250 million at their disposal, and 25% of the respondents declared that the value of their current investment resources ranged from EUR 250 to 500 million. The smallest group of funds raised investment capital in excess of EUR 500 million (17%). Almost 60% of the funds have been closed relatively recently, in 2013–2016.

Value of investment resources accumulated in the current fund or funds (EUR million)

<table>
<thead>
<tr>
<th>Range</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 100</td>
<td>25%</td>
</tr>
<tr>
<td>100.1-250</td>
<td>33%</td>
</tr>
<tr>
<td>250.1-500</td>
<td>25%</td>
</tr>
<tr>
<td>500.1-1,000</td>
<td>4%</td>
</tr>
<tr>
<td>Over 1,000</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on a survey among PE funds
The largest percentage of funds claim that the value of the currently available investment resources for Poland is up to EUR 50 million (38%). One quarter declared having EUR 50 to 100 million, and one-fifth have EUR 100 to 500 million at their disposal. A handful of funds have an investment limit for Poland exceeding EUR 500 million while 14% of the funds do not formally specify an upper investment threshold for the Polish market.

The respondents were also asked about the investment limits of their current fund in Poland. For nearly 70% of the surveyed funds, the lower limit for investments does not exceed EUR 10 million. The upper limit is not greater than EUR 50 million for 71% of the surveyed funds. The relatively low threshold figures are partly related to the structure of the M&A market in Poland: due to the small number of large companies, PE funds have to adapt their investment strategies and focus on smaller transactions. In terms of investment strategy, most funds invest mostly in controlling stakes (72%), 48% also invest in minority stakes, and 44% of the funds often buy a 100-percent stake of shares in companies.
All the surveyed funds maintain local teams of experts to coordinate investment activities in Poland and the CEE region. In nearly a half of the surveyed funds, these teams consist of no more than five people. The average size of the local investment team is eight people.

In 2015, the surveyed funds analysed an average of 134 projects, of which an average of 17 projects reached the stage of analysis by the investment committee. Over 50% of the projects analysed by the surveyed funds were initiated by company owners or consultants. The share of this type of projects increased by 6 percentage points compared to the 2014 survey. At the same time, there was a decrease in the average share of projects initiated by the funds themselves (38% now vs. 43% in the 2014 survey). Nevertheless, active monitoring of the market and the search for attractive acquisition targets still plays a very important role.

Deal sources include private contacts, interviews with advisers, proposals of managerial groups and proposals made by executives of former and current portfolio companies. Respondents’ answers indicate that the Polish market has been offering many attractive investment opportunities in the last two years. Some respondents stated, inter alia, that there has been an increase in the number of available transactions in the segment of smaller portfolio companies. They also highlighted that the quality of investment proposals received has been improving. Potential portfolio companies are increasingly well prepared and have clear expansion strategies. According to some respondents, companies grow ever more knowledgeable about the functioning of private equity funds: owners are aware of the benefits of cooperation with PE funds and increasingly understand the requirements put forward by financial investors. According to the surveyed funds, recent years have seen an increased number of companies looking for a partner to help them with international expansion.

Another trend which the funds pointed out as one that has had a significant impact on the Polish PE market is the emergence of a greater number of companies interested in delisting from the public market, which is largely a consequence of the fact that Poland’s private pension funds (OFE) have been forced to transfer a large part of their assets to the public Social Security Institution (ZUS). Consequently, the OFEs lost much of their clout as an investor and the Warsaw Stock Exchange became less attractive. At the same time, since the possibility to raise capital on the stock market has shrunk, entrepreneurs are increasingly considering private equity funds as an alternative to IPOs. The surveyed funds also indicate that transactions involving the privatisation of state-owned enterprises no longer play a role, a sign of the growing maturity of the Polish market.

The survey has shown that the average valuation of companies in Poland in 2015 was higher than in Western Europe. However, a significant proportion of the respondents said that valuations in Poland were currently falling just short of 56% said that valuations were lower in Poland than in Western Europe. In the 2014 survey, only 5% of the respondents expressed this opinion.

5.2 The market and deal flow in 2015

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>1 to 5 people</td>
</tr>
<tr>
<td>28%</td>
<td>6 to 10 people</td>
</tr>
<tr>
<td>12%</td>
<td>11 to 15 people</td>
</tr>
<tr>
<td>12%</td>
<td>over 15 people</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on a survey among PE funds
The surveyed funds were also asked about the conditions for PE operations on the Polish market. Just as in 2014, most of the funds express a positive opinion on the availability of debt financing: 71% do not have any problems with raising it. One quarter of the respondents say that debt capital is hard to come by yet more often than not, promising projects will still receive appropriate funding. Only 4% of the surveyed funds said that debt financing for transactions was very difficult to obtain and represented a significant limitation to the fund's investments. In 2014, the opinions were even more positive: as many as 86% of the respondents were of the opinion that debt financing was readily available and none of the respondents indicated that they felt there was a significant barrier consisting in the lack of financing for M&A transactions. Despite the slightly less positive opinions in the present study, we can conclude that, in principle, the availability of debt financing is not a barrier for PE funds to complete transactions. However, this does not apply to all segments equally. Some funds that specialise in venture capital investments expressed the opinion that in the case of investments in start-ups from sectors such as technology and e-commerce, debt financing was virtually unavailable.

Most respondents see regulatory issues as a barrier. Over 80% said the Polish tax system was complicated or very complicated for those who carry out investments, and only 18% described the system as simple.
The results of the survey suggest that the Polish market offers enough ways to exit PE investments. Just like last year, the respondents reported that sale to a strategic player was the most likely exit route in the current market conditions in Poland. Interestingly, in 2014, the majority of respondents thought that the Polish market was so small that PE funds should look for investors beyond it. More than 80% believed that the most likely buyer would be an European entity from outside the CEE region while Polish investors played a marginal role (5% of the responses). In this year’s study, however, 21% of the funds said that an entity from Poland would be the most likely investor, and 17% pointed at buyers from the CEE region (6% in 2014).

The second most likely exit strategy was the sale of the company to another PE fund. Taking the portfolio company public by IPO came third. The rating of this possibility has decreased compared to the 2014 study, which is associated with the changes related to the Polish pension funds. Currently, as in 2014, sale to another shareholder in the company is the least likely exit route.

The future of the Polish PE market, as seen by the surveyed funds

Much like two years ago, the respondents are optimistic about the future of the Polish PE market: 68% expect that over the next two years the number of attractive acquisition targets will increase (67% in 2014). Only 4% fear that there will be fewer potential acquisition targets in Poland (in 2014, none of the funds expressed this concern). Slightly fewer funds predict that a larger number of investment targets will directly translate into a higher number of transactions on the Polish market. Nearly half of the respondents expect an increase in transactions over the next two years, almost 30% do not plan any changes, and 20% believe that the number of transactions may decline. According to the largest part of the funds (48%), the average value of transactions on the Polish market will remain at a similar level while a quarter of the respondents think that the average value will increase. The value of transactions depends, among others, on the size of the acquired company. Poland has a relatively small number of large companies, which will change only gradually, over several years.
In the respondents’ view, the most attractive investment sectors in the coming years will include consumer goods, which have advanced from the second position in 2014 to the very top, followed by business services (3rd in 2014), industrial manufacturing (5th in 2014) and technology and media, which ranked 4th (much like in 2014). On the other hand, medicine and pharmaceuticals will lose some of their importance. These sectors were ranked further down, even though two years ago they topped the ranking in terms of investment appeal and growth potential. Financial services are considered to be slightly less attractive. Much like two years ago, the vast majority of funds think that the energy sector and building and construction are currently not attractive for funds operating on the Polish market.

Future appeal of sectors (average ratings given by the surveyed funds on a scale from 1 to 9 where 1 means ‘most attractive and 9 means ‘least attractive’)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of attractive targets</th>
<th>Number of transactions</th>
<th>Average transaction value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods</td>
<td>4%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Business services</td>
<td>64%</td>
<td>36%</td>
<td>24%</td>
</tr>
<tr>
<td>Industrial manufacturing</td>
<td>28%</td>
<td>28%</td>
<td>48%</td>
</tr>
<tr>
<td>Technology and media</td>
<td>4%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Financial services</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>Power sector</td>
<td>0%</td>
<td>4%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on a survey among PE funds
In this year’s edition, the funds were also asked about the future appeal of particular company segments in the coming years. Funds operating in Poland will continue to invest primarily in companies which are at the mid-stage of development and need capital for further expansion (middle size growing companies). As many as 71% of the respondents believe that the appeal of such companies as acquisition targets will increase. The remaining respondents think their appeal will remain unchanged.

In the case of mature companies and market leaders, less than 40% of the funds believe that their appeal will increase, and most do not expect any major changes (only 4% expect a decrease in the appeal of such companies). The thriving start-up scene in Poland is viewed positively by the funds: nearly 60% believe that start-ups will grow in popularity in the coming years, and only 10% believe that they will become less attractive targets.

The number, type and value of future investments will depend on numerous factors, including the availability of financing. When asked how the availability of debt financing will change during the next two years, most funds gave a conservative forecast: only 4% of the respondents said that the availability of financing would increase. The majority of the respondents (56%) believe that it will remain at the same level as before, while 36% said that the availability of loans may slightly decline. It must be remembered, however, that the funds view the current availability of debt financing very positively: perhaps some of them no longer see any room for further improvement in this respect. Among the respondents who do not expect an improvement in the availability of debt financing in future, more than 80% believe that it is readily available now and does not represent a barrier to transactions.

The diagram represents the future appeal of various company segments as perceived by PE funds in Poland. The numbers indicate the percentage of respondents who believe the appeal will increase, remain unchanged, or decline for each segment:

- Mature companies (market leaders): 38% will increase, 58% will not change, 4% will decline.
- Middle size growing companies: 71% will increase, 29% will not change.
- Start-ups: 57% will increase, 33% will not change, 10% will decline.

Source: KPMG in Poland based on a survey among PE funds.
5.4 Strategies for the development of portfolio companies

In this year’s survey, the funds were asked about their preferred strategies for the development of their portfolio companies. Many industries in Poland are characterised by a high potential for consolidation, however, the responses indicate that organic growth is the dominant strategy employed by funds operating in Poland. The average share of portfolio companies developed organically was 62% among the surveyed funds compared to 38% of those who achieved growth mainly through acquisitions. As many as 62% of the funds declared that more than half of their portfolio companies had been developed organically in the last ten years.

### Growth strategies of portfolio companies in the surveyed funds

<table>
<thead>
<tr>
<th>Share of organically expanded companies</th>
<th>Percentage of funds which chose this answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>1-25%</td>
<td>5%</td>
</tr>
<tr>
<td>26-50%</td>
<td>24%</td>
</tr>
<tr>
<td>51-75%</td>
<td>29%</td>
</tr>
<tr>
<td>76-100%</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of portfolio companies grown mostly through acquisitions</th>
<th>Percentage of funds which chose this answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>1-25%</td>
<td>38%</td>
</tr>
<tr>
<td>26-50%</td>
<td>4%</td>
</tr>
<tr>
<td>51-75%</td>
<td>0%</td>
</tr>
<tr>
<td>76-100%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on a survey among PE funds
Exports and foreign expansion are essential elements of the growth strategy for portfolio companies. Good quality of products and services, relatively low labour costs and favourable exchange rates mean that more and more Polish companies are successful not only in Poland but also in foreign markets, as evidenced in the dynamic growth of Polish exports. Most PE funds use these strengths of Polish companies to help them grow further and build value. Under 10% of the funds declared that no company in their current portfolio is being grown through international expansion. Nearly 60% of the surveyed funds claim they develop more than half of their companies in this way. The average share of companies in the current portfolio which are grown through international expansion was 59%. A half of the surveyed PE funds said that good growth strategies, international networking and the implementation of proven strategies had helped to achieve an average increase in export revenues of more than 25% after three years following the acquisition of the portfolio company.

### Importance of exports in the growth of portfolio companies of the surveyed funds

<table>
<thead>
<tr>
<th>Share of portfolio companies grown through increased exports, at least partially</th>
<th>Percentage of funds which chose this answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>1-25%</td>
<td>9%</td>
</tr>
<tr>
<td>26-50%</td>
<td>23%</td>
</tr>
<tr>
<td>51-75%</td>
<td>32%</td>
</tr>
<tr>
<td>76-100%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: KPMG in Poland based on a survey among PE funds

5.5 The role of owners and co-owners in portfolio companies

Another issue that was raised in the survey conducted by KPMG in Poland is the role of former or current owners and co-owners of portfolio companies. The average percentage of companies that belonged to private owners before they were acquired and became part of a PE fund’s portfolio was 80%. The surveyed funds reported that, on average, 78% of companies in that group were those where the owner or co-owner was still present in the structures of the company after the fund acquired its shares. Asked about the role played by private owners of companies after the acquisition by a PE fund, the funds mentioned President of the Management Board (93%), followed by member of the Supervisory Board other than the Chairman (53%), Chairman of the Supervisory Board (33%), and member of the Management Board other than the President (27%).

### Roles most commonly played by private company owners after the acquisition by a PE fund

- President of the Management Board: 93%
- Member of the Management Board: 27%
- Chairman of the Supervisory Board: 33%
- Member of the Supervisory Board: 53%

Respondents could choose more than one answer

Source: KPMG in Poland based on a survey among PE funds
Results of the survey among owners of portfolio companies

Most owners and former owners of portfolio companies positively view the co-operation with PE funds while pointing out areas where improvement would help to achieve an even better perception of the partner’s appeal. Willingness to leave considerable freedom in the management of the company was the most frequently cited factor influencing their decisions to establish co-operation with a PE fund.

6.1 Survey methodology

As a complement to the survey conducted among PE funds, KPMG in Poland conducted a survey among owners and former owners of portfolio companies. The study was conducted using a questionnaire that was sent to portfolio companies. The survey respondents represented a total of 18 companies. More than a half of the respondents served as CEOs of the portfolio companies, 11% were chairmen of the supervisory board, and 17% were other members of the supervisory board. Only 6% of the respondents did not hold any position in the portfolio company at the time of the survey. As part of the survey, the respondents were asked about the reasons why they decided to co-operate with a private equity fund, forms of support and assistance they received from the fund, areas for improvement in the co-operation (if any), as well as their general assessment of co-operation with the PE fund.
Besides being granted considerable leeway in the management of the company, which was indicated by nearly 8 out of 10 respondents, as many as 56% of the respondents mentioned trust between the PE fund and their company, and 33% highlighted the PE fund’s interest in a long-term strategy as factors that influenced the decision to enter into co-operation with the fund.

Among the various forms of support and assistance that portfolio companies received from private equity funds, the provision of capital was most common (78% of the respondents indicated this answer). In addition, 39% of companies received support in the form of specialist know-how in the field of management, finance or marketing. 17% of the respondents also indicated: support for expansion in the domestic market through organic growth through mergers and acquisitions, providing industry knowledge to develop the company and introducing corporate governance principles.

The collaboration between portfolio companies and PE funds is generally rated positively. 72% of the companies consider it very positive, and 22% think it is fairly positive. Only 6% of the respondents gave a neutral answer and no one offered a negative assessment.

### 6.2 Survey results

**Respondent structure in terms of positions**

- President of the management board: 56%
- Chairman of the supervisory board: 17%
- Member of the supervisory board: 17%
- No position held at present: 11%
- Other: 6%

Source: KPMG in Poland based on a survey among portfolio companies

**Factors influencing the decision to establish co-operation with a PE fund**

- Readiness to leave a lot of freedom in the management of the company: 78%
- Trust between the PE fund and the company: 56%
- The fund’s interest in a long-term strategy: 33%
- A similar approach to risk: 28%
- The fund’s international contacts: 22%
- The fund’s industry expertise and experience: 17%
- The fund’s knowledge of the company’s business model: 11%
- Similar expectations as to investment returns: 11%

Respondents could choose up to three answers

Source: KPMG in Poland based on a survey among portfolio companies
Forms of support received from the PE fund

<table>
<thead>
<tr>
<th>Support Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of capital</td>
<td>78%</td>
</tr>
<tr>
<td>Specialist know-how in the field of management, finance or marketing</td>
<td>39%</td>
</tr>
<tr>
<td>Support for expansion in the domestic market through organic growth</td>
<td>17%</td>
</tr>
<tr>
<td>Support for expansion in the domestic market through mergers and acquisitions</td>
<td>17%</td>
</tr>
<tr>
<td>Providing industry knowledge to develop the company further</td>
<td>17%</td>
</tr>
<tr>
<td>Introduction of corporate governance principles</td>
<td>17%</td>
</tr>
<tr>
<td>Assistance in the implementation of a succession plan</td>
<td>11%</td>
</tr>
<tr>
<td>Support in international expansion</td>
<td>6%</td>
</tr>
</tbody>
</table>

Respondents could choose up to three answers
Source: KPMG in Poland based a survey among portfolio companies

Overall assessment of co-operation with the PE fund

- Strongly positive: 6%
- Fairly positive: 22%
- Neutral: 72%

Source: KPMG in Poland based a survey among portfolio companies

Despite such positive opinions on the co-operation with PE funds, there are also some areas where improvements would help to increase the satisfaction among the management of the portfolio companies, and cause the funds being perceived as an even more attractive business partner. Among these elements, respondents said PE funds could develop a deeper knowledge about the industry where the company operates: this answer was mentioned by 44% of the respondents.

As many as 39% of the respondents said that the funds should give companies even more freedom in management, and 33% said that more coherent ideas about the direction and manner of growth of the company were needed, and that the funds should place less emphasis on financial indicators – these factors would have a positive impact on co-operation.
### Elements which can be changed to make the PE fund a more attractive partner

<table>
<thead>
<tr>
<th>Element</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing a deeper knowledge by the fund about the industry in which the company operates / stronger industry-focused support from the PE fund</td>
<td>44%</td>
</tr>
<tr>
<td>Giving more freedom in management to the companies</td>
<td>39%</td>
</tr>
<tr>
<td>More coherent growth strategy for the company</td>
<td>33%</td>
</tr>
<tr>
<td>Less focus on financial performance indicators</td>
<td>33%</td>
</tr>
<tr>
<td>Owners (former owners) having more say as to the company’s strategy</td>
<td>22%</td>
</tr>
<tr>
<td>I do not see anything to improve</td>
<td>17%</td>
</tr>
</tbody>
</table>

Respondents could choose up to three answers

Source: KPMG in Poland based on a survey among portfolio companies
Case studies

All private equity funds which participated in the KPMG survey were asked to describe a selected investment in a portfolio company. The case studies provided by the funds demonstrate the opportunities that the Polish market and the CEE region offer to potential investors. The funds described the initial situation and the profile of portfolio companies as well as actions taken by the funds and the outcomes of those actions. In all cases, the activity of PE funds helped portfolio companies to achieve rapid growth, and the realised investments achieved high returns on capital.

Artifex Mundi

Fund: Warsaw Equity Management
Year of investment in the portfolio company: 2012
Investment status: Active
Description of the investment: Artifex Mundi is a producer and publisher of casual games monetised in the try-before-you-buy and free-to-play models. In 2012, a Warsaw Equity Management Group fund took over 0.2 of the shares in the company.

With financial and operational support provided by the fund, the company significantly modified and expanded its business profile. In 2012, Artifex Mundi produced games for publishers and other development studios, while in the following year the company started to exclusively produce its own games, while maintaining full rights to them.

The obtained funding helped the company to increase the production and publishing teams. Among others, the company hired a business development director who co-operates directly with the largest publishing platforms for mobile games and games for PCs in the US. These measures significantly supported exports. In 2014, the company expanded its publishing activities by adding games produced by external studios to its catalogue.

Outcomes: Currently, Artifex Mundi games are available in 155 countries. The share of international sales in total revenues exceeds 98%, with the largest markets being the United States, China and Germany. In the past four years, the company expanded its portfolio of games from 6 to 37 and increased its workforce from 50 to 120 people. The company’s sales rose from PLN 2.2 million in 2011 to PLN 17.5 million in 2015. EBITDA for 2015 amounted to PLN 10.0 million.

Source: KPMG in Poland based on information provided by PE funds
Montagu private equity

Euromedic

Fund: Montagu
Year of investment in the portfolio company: 2008
Investment status: Completed (2014)
Description of the investment: Euromedic was established in 1991 and currently has one of the largest networks of diagnostic imaging centres and radiation therapy centres in the CEE region, as well as a strong position in the markets of Western Europe.

Montagu, along with a group of financial investors, invested in Euromedic in 2008. Since the management buyout, Euromedic has grown both organically and through additional acquisitions. The company expanded its operations into new markets in Central and Eastern Europe and increased its network of centres by 80%. The company's performance was increased thanks to focusing on two synergistic business divisions: diagnostic imaging and radiation therapy, and a number of operational initiatives. At the same time, the company began to build a balanced geographical profile, combining attractive markets in Central and Eastern Europe and selected stable countries in Western Europe. Improvements in organisational, operational and investment efficiency was reached through measures such as removal of duplicate functions at the headquarters and country offices, reduction of operating costs, e.g. through the introduction of digital recording of images and test results, and through active management of the medical device fleet and investments.

Outcomes: During the Montagu investment, as a result of the actions taken and the successful co-operation with the management board, Euromedic became one of the leading medical platforms in Europe. The implemented strategy enabled the company to achieve further dynamic growth and significantly improved its operational and financial profile. At the time of Montagu’s exit, the company was generating approx. EUR 280 million in annual revenues.

Gekoplast

Fund: TFI Capital Partners
Year of investment in the portfolio company: 2010
Investment status: CPartial exit (sale of 15% of shares – IPO in 2014)
Description of the investment: Gekoplast is one of Europe’s largest producers of polypropylene cellular boards. The product is used in many industries, including the automotive industry, household appliances, packaging, construction and advertising.

In 2010, Capital Partners used a special purpose vehicle called Plastics KM to acquire a division focused on production of cellular boards from Nitroerg S.A. In the same year, Plastics KM acquired 100% of shares in the main competitor on the Polish market, Gekokart Sp. z o.o. As a result of the merger of the two entities, Gekoplast S.A. was founded.

In 2011–2013, the fund conducted a thorough restructuring, transferring all production to a single manufacturing plant, significantly increasing the productivity of machinery, eliminating unprofitable production, restructuring employment and improving energy efficiency. On the financial side, the fund achieved the sale of idle production assets and refinanced the buyout debt. Positive cash flows were used to finance an investment programme worth PLN 24 million in total.

Outcomes: As a result of the actions taken, EBITDA increased from PLN 5 million in 2011 to PLN 9.6 million in 2015, and the management forecast for 2016 is PLN 13.5 million.

Further investments, worth PLN 20 million, are planned for 2016. The new production capacities will be used mainly for the successfully launched production of layer pads, i.e. spacers used in the transport of glass packaging. The company exports its products to 24 countries, and the share of exports in total sales stands at 49%. The current capitalisation of the company (May 2016) on the Warsaw Stock Exchange implies a nearly four-fold return on the investment for the fund.

Source: KPMG in Poland based on information provided by PE funds
Good Food Products

Fund: Resource Partners

Year of investment in the portfolio company: 2011

Investment status: Partial exit (sale of 15% of shares – IPO in 2014)

Description of the investment:
At the time of the acquisition by Resource Partners, Good Food was among the most important players on the Polish market of rice cakes. Since then, the company has reinforced its position in this segment in Poland and has become one of the leading players on the European market.

After Resource Partners entered the company and analysed the potential directions for further growth, a decision was made to refocus the corporate strategy in order to make better use of the growth prospects in the private label segment and on international markets. The strategy was based on a significant increase in production capacity (more than doubled production capacity: from 45 million packs per year in 2011 to more than 100 million packs in 2015), extension of the product range within the rice cake category (introduction of new flavour variants, mixes of cereals and convenience-type packages), optimisation of operations and increase in production efficiency (reducing losses in the technological process and cussing the manufacturing costs thanks to a number of operational improvements).

Outcomes: The change in the company’s strategy towards specialisation in a narrow group of products and the production for private-label customers allowed the company to achieve rapid growth in exports (export sales grew at a rate exceeding 25% per annum in 2011–2015) and to enter the ranks of the top three largest European producers of rice cakes.

The company’s performance rose from sales of PLN 56 million and an EBITDA of PLN 11.7 million in 2011 to PLN 86 million in sales and an EBITDA of PLN 18.2 million in 2015. In April 2015, Resource Partners sold its shares in Good Food Products to Hartenberg Capital, a Czech private equity fund, realising an almost three-fold return on its investment.

home.pl

Fund: Value4Capital

Year of investment in the portfolio company: 2012

Investment status: Completed (2015)

Description of the investment:
home.pl is a major hosting and online domain provider in Poland. In addition, the company offers comprehensive services related to web presence (SaaS, Web page creator, e-commerce platform, SSL certificates and data security solutions, VPS servers, etc.) to more than 300 thousand customers, mainly small and medium-sized companies. V4C invested in home.pl in 2012 by acquiring a majority stake from its founders. At the time of the investment, a number of business areas were streamlined, which helped to improve the quality of services. V4C, together with the management board of home.pl, worked on improving sales performance, the pace at which new services were introduced and on customer service standards. As a result, home.pl significantly strengthened its position by expanding its market shares in all key segments and considerably expanding the range of products offered. In 2013, the acquisition of a competitor, AZ.pl, allowed home.pl to make its offer available to a new segment of customers, and the achieved synergies helped the company to boost its profitability.

Outcomes: In 2015, V4C and other shareholders sold all their shares in home.pl to United Internet AG, an international industry player, for EUR 155 million. V4C achieved a return on invested capital of 3.4x Cash-on-Cash (38% IRR) from its investment in home.pl. The resultant valuation multiplier at 17x EBITDA was among the highest obtained to date in the industry globally, and was much above the valuation of foreign public companies with a similar business profile.
Mercor

Fund: Innova Capital

Year of investment in the portfolio company: 2006

Investment status: Completed (2009)

Description of the investment:
At the time of Innova Capital’s investment, Mercor was one of the largest manufacturers and suppliers of passive fire protection systems in Poland and the Czech Republic (through a subordinate company, Hasil, controlled in 50%). The main products of the company included fire-resistant doors and gates, smoke removal systems and fire ventilation systems.

In early 2006, Innova Capital acquired a 37% stake in Mercor for EUR 14 million, becoming its main shareholder. In the same year, Mercor acquired the remaining 50% of the shares in Hasil and expanded its operations by opening offices in Romania and Ukraine. In the following years, Mercor acquired the Spanish company Tecresa and its main competitor on the Polish market, BEM. As a result of supporting export growth and acquisitions, the share of sales outside Poland, the Czech Republic and Slovakia skyrocketed from 6.5% in 2005 to 26.5% in 2008. Factors which also helped to build value included synergies generated on the cost side (including joint purchases, reduction in general and administrative costs, the introduction of lean management), as well as on the revenue side (e.g. standardisation of the pricing strategy, certification and cross selling).

Outcomes: During the investment, Mercor became one of the most important players in Europe. During this period, its revenues more than quadrupled (from EUR 29 million in 2005 to EUR 130 million in 2008), and EBITDA more than quintupled (from EUR 4 million in 2005 to EUR 22 million in 2008). The intensive growth of the company helped the fund to make an early partial exit during Mercor’s IPO on the Warsaw Stock Exchange in July 2007. In 2009, Innova sold its remaining shares in the company, achieving a return of 2.5x on the initial investment.

Source: KPMG in Poland based on information provided by PE funds
**Rankomat**

**Fund:** 3TS Capital Partners  
**Year of investment in the portfolio company:** 2010  
**Investment status:** Completed (2015)

**Description of the investment:** Rankomat is one of the largest online insurance aggregators in Poland, combining the convenience of online shopping with professional advice from insurance consultants. Thanks to a wide range of insurance products and a call centre, customers can compare deals offered by many insurers in one place and make their purchase, saving time and money. In turn, insurance companies have the ability to acquire new customers more effectively and boost their online sales.

In 2010, Rankomat entered the portfolio of 3TS Capital Partners. 3TS played a key role in defining the target business model tailored to the local market and in making the necessary changes in the company’s management board. In subsequent years, the company experimented with its sales strategy and the product mix, gradually improving the terms of co-operation with insurers.

In 2014, the company expanded its portfolio by adding personal finance products as well as other insurance products, achieving profitability at the EBITDA level.

**Outcomes:** In 2011–2015, the average annual increase in sales reached 86%. The number of registered users rose from 137 thousand in 2011, to 1.7 million in June 2015, while the number of unique users leapt from 912 thousand to 3.6 million during the same period.

The sale of shares and the exit from the investment was initiated by the end of 2014 and generated considerable interest, both among industry and financial investors. In mid-2015, 100% of the shares were sold to Bauer Media GmbH. 3TS realised an almost six-fold return on invested capital, achieving an internal rate of return (IRR) of 56%.

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**Invia.cz / Travelplanet.pl**

**Fund:** MCI Capital / MCI.TechVentures  
**Year of investment in the portfolio company:** 2008  
**Investment status:** Completed (2016)

**Description of the investment:** The company was established in the Czech Republic in 2002 and gained a very strong position on the online tourist market in the Czech Republic, Poland, Slovakia and Hungary. Invia offers tourist trips, hotel booking and flight tickets. The company works with more than 300 tour operators and offers more than 8 thousand travel packages. Invia portals have more than 210 thousand registered users and generate approx. 700 thousand unique views each month.

In 2008, MCI.TechVentures acquired shares in the company. In June 2009, the company completed the acquisition of NetTravel.cz, thus gaining a 60% share in the e-travel market in the Czech Republic and Slovakia. In 2011, the company acquired a controlling stake in Travelplanet, the Polish e-tourism leader, significantly strengthening its position on the Polish market. Invia and Travelplanet constantly improve their product range and increase the competitiveness of their sales channels, working only with the largest tour operators and through an extensive range of insurance products. As a result, they effectively build customer confidence and expand their market share in the current situation.

**Outcomes:** In 2016, MCI.TechVentures sold its shares in Invia. The company’s valuation at the exit amounted to EUR 76 million. The internal rate of return (IRR) reached 46%. The fund sold its shares for EUR 56 million, realising a more than 11-fold return on the initial investment and a 3.5-fold return on the secondary investment (subsequent purchases of shares from other shareholders). The performance indicators surpass market benchmarks for such transactions.
**Enterprise Investors**

**Kruk**

*Fund:* Enterprise Investors  
*Year of investment in the portfolio company:* 2003  
*Investment status:* Completed (2013)  
*Description of the investment:* Kruk was founded in 1998 by two entrepreneurs who saw the large potential of the Polish market for debt recovery market in 2000. Within three years, Kruk established itself as a market leader and soon launched its second line of business: buying up debts. The company’s founders were looking for additional funding for further growth. In 2003, Enterprise Investors took up a majority stake in the company and supported its development on the rapidly growing market for debt purchases in Poland and abroad. Currently, Kruk is among the largest and most profitable companies in the debt purchase industry in Central Europe, with a strong position on the Polish, Romanian, Czech and Slovak markets. The uniqueness of the group’s strategy is particularly evident in the conciliatory approach that allows indebted people to settle their debts in convenient instalments.

*Outcomes:* During the EI investment, the company achieved a nearly ten-fold increase in revenues, reaching PLN 406 million in 2013, i.e. the year when the fund completed its investment. During that time, Kruk also created new jobs, boosting employment from 300 to 1,800 employees.

**Termo Organika**

*Fund:* Krokus Private Equity  
*Year of investment in the portfolio company:* 2011  
*Investment status:* Active  
*Description of the investment:* Termo Organika is a leading Polish manufacturer of insulation systems. The company offers a wide range of polystyrene panels for thermal insulation of facades, roofs, floors and foundations. Termo Organika also offers other products used for isolation, such as glues and plasters. The company has its own R&D department which is tasked with developing new products in response to market demands. At the time of the investment, Termo Organika had a very strong market position and ambitious growth plans, based on planned acquisitions and new product launches. Rising energy costs created a strong macro trend that supported the company in its growth, despite the crisis in the construction industry. Strong market fragmentation offered ample opportunity for consolidation. After the management buyout, the management team was motivated to grow the company further.

Krokus PE supported the company by measures such as the introduction of corporate governance rules at shareholder and supervisory board levels, assistance in the implementation of numerous cost-optimising initiatives and assistance in carrying out two investments.

*Outcomes:* The investment made by Krokus helped the company to achieve dynamic growth: the company drove its revenues by 50%, strengthened its market position in Poland and started to sell its products abroad. The share of exports in the sales structure increased from zero to 5% in 2015. The company also significantly expanded its product portfolio.

Source: KPMG in Poland based on information provided by PE funds
Other examples of portfolio companies:

- Velvet
- Medort
- Organic Farma Zdrowia
- Zaberda
- Marketplanet
- Novo Tech
- Plasma System
- EDC Expert in Direct Communication
- ZETKAMA
- MPS
- Fiten
- CEKO
- AG FOODS
- Limito

- Diverse
- Graf-Poz
- Mykogen
- Novago

- Malborskie Zakłady Chemiczne „Organika”
- Grupa Nowy Szpital
KPMG services for private equity funds

Deal opportunities
- Individual access to thousands of potential targets
- Determination of strategy and search criteria
- Identification of targets and potential investors
- Initial assessment (financial, operational, commercial) and valuation of target companies

Investment
- M&A Advisory
- Due diligence (financial, tax, commercial, operational)
- Development of growth strategy and operating model
- Support in preparing financial models for target companies
- Valuation support, including possible synergies
- SPA assistance
- Tax structuring
- Transaction completion assistance
- Tax efficient management incentive plans

More than 250 completed transactions with M&A advisory

Exits
- M&A Advisory
- Building of transaction structure
- Coordination of the work of other advisors
- Tax structuring for exit transactions
- Separation assistance
- Vendor assistance
- Data room preparation support

Portfolio management
- Dedicated audit services for private equity
- Improvement in operational performance
- Assistance in the implementation of sound valuation policies and methodologies
- Preparation of financial models and independent valuations
- Independent reviews of financial models and valuations

Improvement
- Strategy development
- Implementation of new business and operational models
- Restructuring
- M&A Advisory: add-on acquisition/ non-care disposals
- Tax structuring
- Company growth monitoring
KPMG offers comprehensive support to private equity clients, including strategic consulting, legal, financial and tax advisory services. We have successfully advised clients both at the initial stage of their investments, as well as during the process of value creation and the exit phase. Our specialists have many years of experience in key areas for the PE sector. We have worked with most PE funds operating on the Polish market.

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About KPMG in Poland

Since 1990 KPMG in Poland has been providing Audit, Tax and Advisory services, while D. Dobkowski sp.k., a law firm associated with KPMG, has been assisting clients in a wide range of legal matters. Currently we employ more than 1 300 professionals in seven offices located in Warsaw, Kraków, Poznań, Wrocław, Gdańsk, Katowice and Łódź.

Fundamental to KPMG’s approach is our focus on sectors from a wide range of industries including Consumer Markets, Financial Services, Private Equity, Automotive, Building, Construction & Real Estate, Technology, Media & Telecommunications, Transport, Shipping & Logistics, Industrial Manufacturing as well as government and public sector agencies.

We believe that we can add value for clients if we truly understand their industry. Our industry-driven structure has enabled us to develop deep knowledge of clients’ businesses and provide them with an informed perspective on the issues they face.

Our success is based on the high-quality of KPMG’s services and more than 174,000 outstanding professionals working together to deliver value in 155 countries worldwide. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

Each KPMG firm is a legally distinct and separate entity and describes itself as such.

We believe in an individual approach to each customer and we strive for providing the best possible quality. Customers appreciate our professionalism, innovation and proactive attitude in tackling their complex business issues.

At KPMG, we believe that businesses have a role to play in making the world a better place. Our commitment to our communities is one of our core values, and we embrace our corporate citizenship through many activities that support the community.
As the appeal of the Polish PE market increases, there is also a growing need for professional advisory services in this field. In response, KPMG has established an interdisciplinary team consisting of specialists in audit, financial advisory, transactions, tax and legal advisory services. The expertise and knowledge of the private equity market guarantee high quality of our services. This is why we help customers to make the most of the potential of the Polish market.

We invite anyone who needs a reliable partner to contact us.