Spotlight: MCI Capital - #1 listed disruptive tech-focused PE fund in CEE

Raiffeisen RESEARCH

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MCI Capital is the **only listed private equity company and the largest digital private equity (PE) firm in CEE with ~PLN 2.7 bn** (EUR 575 mn) **gross AUM** in its two primary funds MCI.EuroVentures 1.0 and MCI.TechVentures 1.0 as of YE 2022. Its regional focus clearly lies on CEE and Poland; however, SEE and the DACH region are also markets of interest. Thanks to own equity resources of PLN 1.9 bn, the company is **not dependent on** regular cyclical **fundraising**. The group targets companies which show promising business models, such as providing digital infrastructure to support the transition towards a more data driven economy. Those include investments in e-commerce, fintechs, insurtechs, payment processing, medtech, edtech and software as a service (SaaS) companies. This is reflected in the **strong track record with +100 completed investments, an IRR of 28% and a 2.5x multiple on invested capital** on exits since 2012, with an average holding period of just 3.5 years on the buyout and expansion portfolio. The **investment focus** is on participations which generate **positive EBITDA and** have an **equity ticket size of ~EUR 25-100 mn**. MCI trades **with a discount of 56% to its NAV** relative to comparable firms in Europe. MCI Group had a **strong liquidity position** of PLN 732 mn as of YE 22.

Last close price (12.04.2023)	18.20	Currency	PLN
Year high/low	14.45/20.60	Index	sWIG80
Shares outstanding eoy (mn)	52.46	Primary Exchange	GPW
Market capitalisation (in EUR)	203.41	ISIN code	PLMCIMG00012
Free float (%)	21.70	Bloomberg	MCI.PW
Free float (in EUR mn)	44.14	Reuters	MCI.WA
PLN/EUR	4.69	Website	www.mci.pl

Source: Bloomberg, RBI/Raiffeisen Research

Key financials

Income statement (PLN mn)	2020	2021	2022	Per share data (PLN, 12m)	2020	2021	2022
Gain on. certificates	164	374	158	EPS	2.7	9.3	2.7
Other gains/losses	52	34	-2	Book value	27.6	35.2	36.5
Investment profit	216	408	157	Dividend	0.54	0.70	0.70
EBT	168	347	113	Payout ratio	19.7%	7.8%	25.6%
Net profit after min.	134	466	143	Dividend, % of Equity	2.0%	2.0%	1.9%

Balance sheet (PLN mn)	2020	2021	2022	Valuation (x, 12m)	2020	2021	2022
Gross AUM*	2,296	2,708	2,654	PE	6.1	2.3	5.9
Investments	1,716	2,010	2,155	Price book value	0.57	0.60	0.44
Shareholders' equity	1,356	1,808	1,916	Dividend yield	3.5%	3.4%	4.4%
Net int. bearing debt	227	202	252	EV/EBIT	5.5	3.6	7.7

Note: Gross AUM defined as total AUM + financial commitments

Source: MCI Capital, Bloomberg

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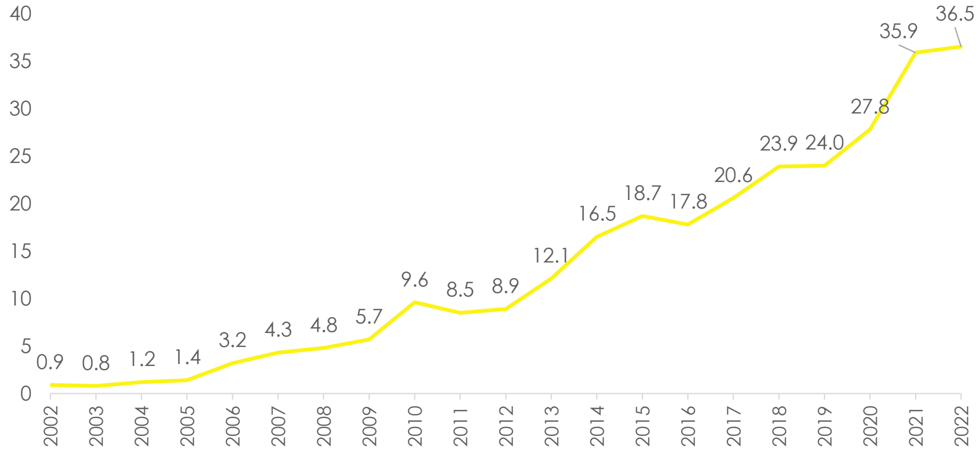
MCI: the number 1 tech/digital investment company in CEE

MCI is a Warsaw listed private equity company with a clear focus on digital business models and enablers of digitalisation, such as telcos, data collectors, processing centres and logistics infrastructure for e-commerce. With total assets under management of about EUR 474 mn (as of YE 22), MCI is the number one tech/digital investment company in the CEE region. Founded in 1999, MCI can leverage its long-standing expertise in the fields of technology and digitalisation having an impressive CoC (cash on cash return) of 2.5x and a realised IRR of 28% since 2012 on the buyout and expansion strategy (past exits as well as returns to be executed in the future). MCI has successfully implemented IPOs (e.g. Answear) and public to private transactions (e.g. IAI, ABC Data) and the company realised some impressive growth over the past 23 years, with NAV growing with a CAGR of 16.9%. MCI currently has a market cap of ca. PLN 896 mn (EUR 191 mn) and the free float amounts to approximately 22%. The company is managed by CEO Tomasz Czechowicz, a well-known Polish entrepreneur and PE investor.

Historical NAV/share development (2002-2022)



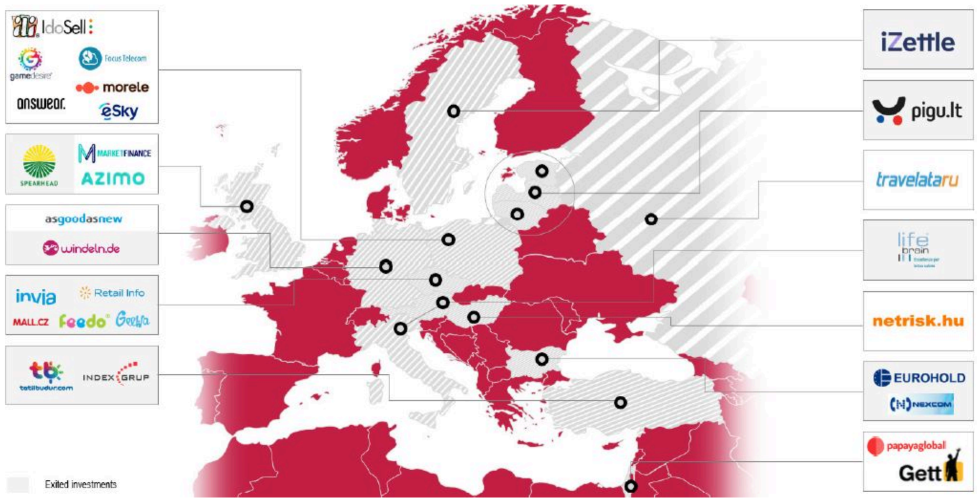
in PLN/share

Source: MCI Capital, RBI/Raiffeisen Research

Clear focus on digital business models and enablers in CEE, SEE and DACH

MCI Capital targets investments in digital business models like e-commerce and marketplaces, fintechs, insurtechs, payments, gaming, media, medtech, edtech and SaaS as well as enablers like telcos, data collectors, processing centres and logistics infrastructure for e-commerce. The regional focus is clearly on CEE, SEE and DACH. The equity ticket size in the expansion or a buyout of a single project usually ranges between EUR 25-100 mn and MCI is acting as a lead investor or participating in syndicates with other PE firms, looking for up to three deals per year, according to company information. Target KPIs for investments are an EV of EUR 50-250 mn, positive EBITDA of roughly EUR 3-30 mn and an organic growth rate of approx. 20-50% p.a. Companies should hold a top-3 market position with the potential to become the market leader via organic or inorganic growth. In the past MCI was also investing in private debt and venture capital but is not conducting any new investments in these areas and focusing on divestments.

Focus on CEE and selected Western European investments

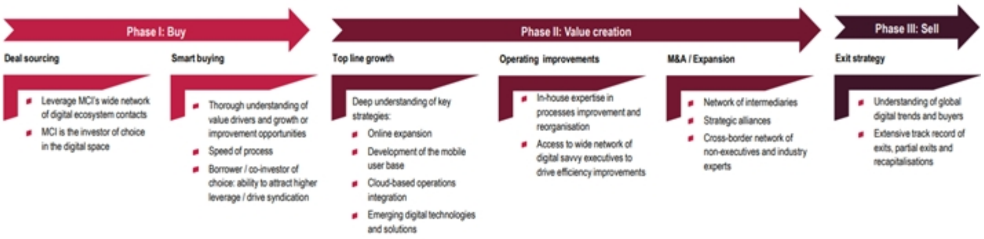


Source: MCI Capital

In-house expertise and a strong network of advisors as key characteristics

One of the key characteristics of MCI is its concept of providing comprehensive support to the management teams of its portfolio companies. MCI acts as an industry partner based on its in-house industry know-how and expertise in process improvement and reorganisation as well as its access to a network of digital and sector experts.

MCI Group value chain



Source: MCI Capital

Ready to allocate up to EUR 100 mn per new investment

The current macroeconomic and geopolitical situation in the CEE region presents an opportunity for new investments at attractive valuations. This is why the MCI Capital is prepared to invest in buyouts, buying from venture capital funds, private equities, strategic sponsors in public to private and public-private equity transactions. Estimated investment outlay is about PLN 500 mn (~EUR 100 mn) on average and includes approximately two to three projects per year. This investment strategy (which is valid already since 2017) has historically generated MCI >25% rate of return on the active portfolio per year.

Cleantech and deeptech as future economic growth engines

Cleantech refers to technologies that are designed to reduce the negative impacts from greenhouse gas emissions, waste and pollution, while promoting sustainable development and economic growth. These technologies may include renewable energy sources as well as energy-efficient products and systems for buildings, transportation, and industry. Deeptech, on the other hand, refers to advanced technologies that are based on artificial intelligence, machine learning, blockchain, etc. These technologies have the potential to transform entire industries and enable faster, more efficient, and more innovative solutions to complex problems. It is worth noting that Cleantech and Deeptech are not mutually exclusive, and there is often overlap between the two fields. According to Bain, Dealogic and Pitchbook, Private equity and Venture capital funds have made +2,000 investments in Cleantech globally since 2017 and may drive the economic growth in the next 25 years.

In addition to the historical focus of their investments in e-commerce, fintech, SaaS and digital infrastructure, the MCI Group is also actively developing climatech/deeptech and digital entertainment practice where they want to be an active investor in these fast-growing industries. They are ready to invest up to 20% of available funds in cleantech. Moreover, MCI already has a circular economy company in its portfolio - AsGoodAsNew (AGAN) which is part of the MCI.TV fund. The company is selling new and refurbished electronic equipment. AGAN purchases the equipment from B2C and B2B customers, refurbishes it in their facilities in Frankfurt (Oder), Germany, and afterwards sells it to their customers. The selling price for the electronic equipment is determined according to the degree of refurbishment.

SWOT analysis

Strengths/Opportunities

- Leading listed PE firm focusing on the attractive digital segment in CEE
- Track record of solid returns above industry average (28% IRR)
- Focus on sizeable, established companies with positive EBITDA limits risks compared to e.g. venture capital companies
- Ability to assist portfolio companies in scaling business models without any significant additional outlays from the fund
- Well-prepared to implement new investments at current attractive market moment thanks to a very high liquidity position (YE 22)
- Opportunity to gain exposure to attractive PE asset with more liquidity, no minimum investment size requirements & capital calls unlike traditional direct investments in PE

Weaknesses/Threats

- PE companies face exit risks regarding timing and pricing
- Large share of liquid assets (i.e. cash) may result in cash drag and negatively impact the NAV IRR
- Weakening macro dynamics burdening business and consumer confidence in the short- to mid-term
- Financial statements published regularly only in Polish
- Low stock liquidity based on average volumes traded due to a relatively limited free float of about 22%

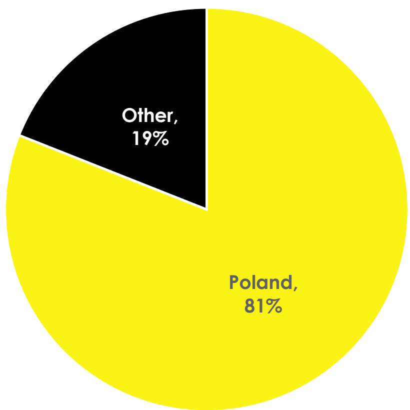
Focus on EuroVentures fund

MCI holds its investments through investment certificates in funds which are managed by the company. Not all of the investment certificates are held by MCI, as external investors are also invested. MCI's portfolio is focused on the MCI.EuroVentures 1.0 fund which accounts for 91% of the total investment certificates (as of YE 22). MCI.TechVentures 1.0 accounts for the remaining 9% of the total investment certificates and is currently in the disinvestment phase. InternetVentures fund is currently in the process of being liquidated with aim of completing the process by YE 2023. MCI owns 99% of the total outstanding certificates of MCI.EuroVentures 1.0 and in MCI.TechVentures 1.0 the stake amounts to 49%. Plans of the company also include MCI.TechVentures 1.0 to be gradually sold by 2024 (or if extended by 2026), thus anticipating exits from investments in the coming years. Investment certificates in the funds are accounted for at fair value. For more information regarding the valuation of investments please refer to the section "Companies valued internally but audited semi-annually."

MCI.EuroVentures 1.0

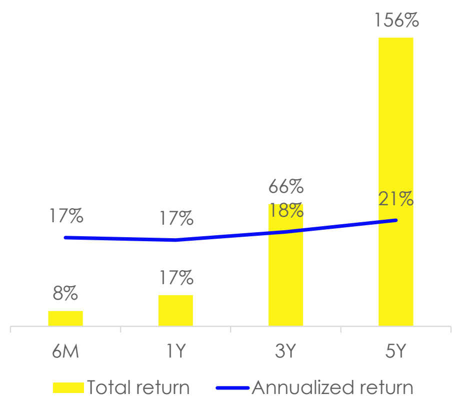
MCI.EuroVentures 1.0 is a fund that focuses on buyouts of medium-sized companies that are leaders in the digital market and digital ecosystem. These include mainly eSky, IAI, Netrisk Group and Pigu Hobby Hall Group. MCI holds a 99% stake in the fund, which includes participations in fields like software as a service, e-commerce, fintech/insurtech companies and other digital firms with EBITDA in a target range of EUR 3-30 mn. The fund has had a very strong performance history with a return of 155.7% (20.7% p.a.) over the past five years, broadly in line with the recent past (3-year return 65.9%, 1-year 16.8%, Series A). The 10-year IRR equals 26.6%.

Geographical breakdown (FY 22)



Source: MCI Capital, RBI/Raiffeisen Research

Rates of return (in %, FY 22)*



**certificate series A*

Source: MCI Capital, RBI/Raiffeisen Research

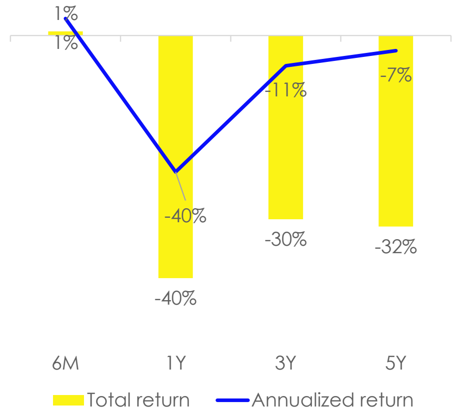
MCI.TechVentures 1.0

MCI.TechVentures 1.0's strategy is more focused on venture capital. It also includes a higher proportion of companies outside of Poland (2/3 Poland, 1/3 other). The fund targets a cash-on-cash return of 3-5x and, similarly to MCI.EuroVentures 1.0, focuses on e-commerce, fintech, software as a service and AI. MCI holds a 49% stake in TechVentures with the remaining 51% being owned by external investors. Although the operating performance of the investments remained resilient, the book values of TechVentures investments (based on comparables) have been directly impacted by the market sell-off and decline in global e-commerce and tech companies valuations. This impact is thus visible in performance of the TechVenture fund that recorded past 5-years return of -31.5% (or -7.3% p.a.), 3-year return of -30.3% (-11.3% p.a.), and last 12 months return of -40.0% (based on Series O). As of December 31, 2022, the IRR of the fund over the past ten years was 4.4%. MCI.TechVentures 1.0 is scheduled to be gradually sold by 2024 (or if extended by 2026), thus anticipating exits of investments in the coming years (i.e. distribution phase).

Geographical breakdown (FY 22)

Source: MCI Capital, RBI/Raiffeisen Research

Rates of return (in %, FY 22)*



** certificate series O*

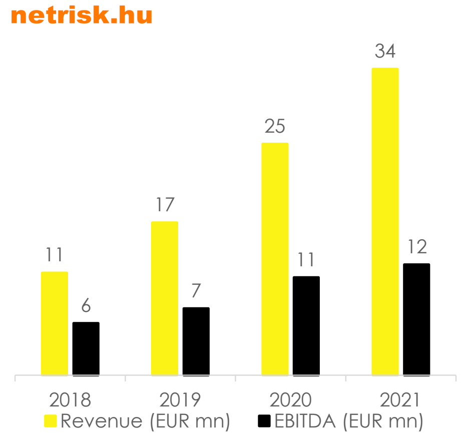
Source: MCI Capital, RBI/Raiffeisen Research

Selected investments

NETRISK GROUP (MCI stake: 22.4%)

Netrisk Group is **a leading Central European online insurance broker**, which operates online platforms across Central and Eastern Europe **for comparing and distributing motor and other insurance policies, as well as certain non-insurance products**, including retail loans, energy contracts and telecommunication contracts. The company is a market leader in Hungary, Austria, the Czech Republic, Slovakia and Lithuania.

Financial highlights



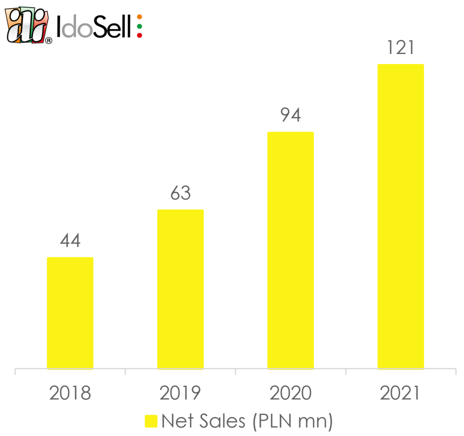
Source: Company filings

The acquisitions of Lithuanian Edrauda and the Austrian platform Durchblicker.at were completed in 2021 and Q1 22, respectively, with further acquisitions planned in 2023. In addition to planned M&A activities, focus is also on effective organic growth using the centralisation of functions and synergies between recently acquired entities. Netrisk is part of MCI.EuroVentures 1.0 fund and MCI completed a partial exit in January 2020 with the exit of the remaining stake planned for FY 25.

IAI (MCI stake: 51.0%)

IAI (platform brand Idosell) is Poland's largest **e-commerce platform for creating online stores operating under a SaaS model.** In Poland, it serves nearly 7,000 stores, and through its acquisition of Shoprenter (in July 2021), IAI has begun to expand internationally, also becoming a market leader in Hungary. The company offers a wide range of services for creating a functional digital store, from developing an integration or marketing strategy to modifying the available website design template to training employees.

Financial highlights



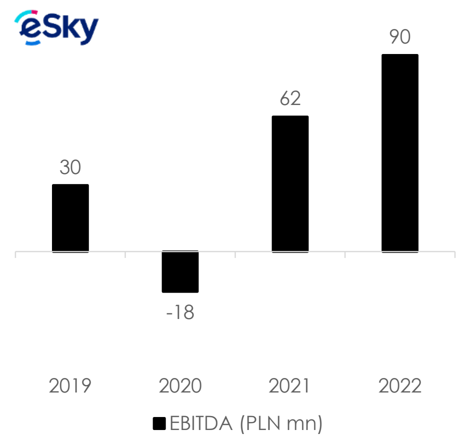
Source: Company filings

IAI's gross merchandise value (GMV) grew at a double-digit rate in 2022, exceeding the average market growth rate. Furthermore, according to MCI, the company reported double-digit increases in revenue and EBITDA. Successful repricing of IAI's offerings and expansion of value-added services enable further improvement in monetization and revenue growth. The management is focusing on the development of IAI towards an improved cross-border functionality. Additional organic growth initiatives have been identified in the areas of payments, marketing and logistics services. Potential new acquisitions in Poland and abroad also remain as elements of the development agenda. The company is part of MCI.EuroVentures 1.0. As of December 31, 2022, it accounted for ~22% of its NAV and the exit is planned for 2024.

eSKY (MCI stake: 55.0%)

eSky is **the leading Polish flight Online Travel Agency (OTA) and a global challenger in the TravelTech segment**, also in the area of complementary services such as hotel booking and insurance. The company's offer includes travel services to individuals, centered around the sales of airline tickets, for both traditional as well as low-cost carrier flights, hotel booking, car rental and other packages. Its services are offered via an online web portal and a mobile application platform. The company is a leader in Poland with a strong CEE foothold along with global outreach (market nibbler strategy).

Financial highlights



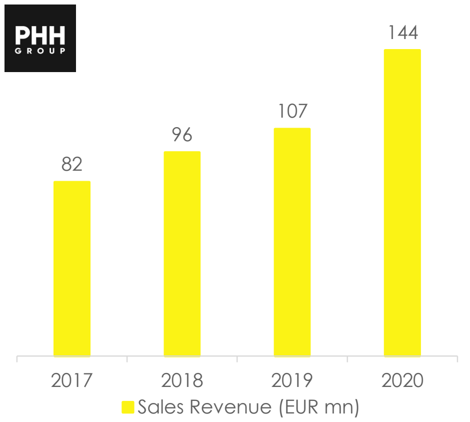
Source: Company information

The company experiences a very dynamic growth of sales and EBITDA. The total transaction value reached PLN 2.9 bn in FY 2022 (1.6 bn in 2021). In LATAM region operates under eDestinos brand. ESky is focusing on the package offer development and expansion to new markets of CEE. The company is part of MCI.EuroVentures 1.0 portfolio since 2022, and this acquisition was one of the only three transactions in CEE mid-market Digital segment in 2022. The exit is currently planned in 2026.

PHH GROUP (MCI stake: 23.0%)

Pigu.lt is an **e-commerce platform** primarily focused on the Baltics, where it is the leader in the segment. It has over 2,000 merchants on the platform. The investment case is based on the belief that the Baltic states are less saturated in terms of online shopping compared to Western Europe and as penetration increases pigu.lt will be able to achieve strong growth dynamics. Pigu.lt experienced a growth of 28% p.a. on average in GMV.

Financial highlights



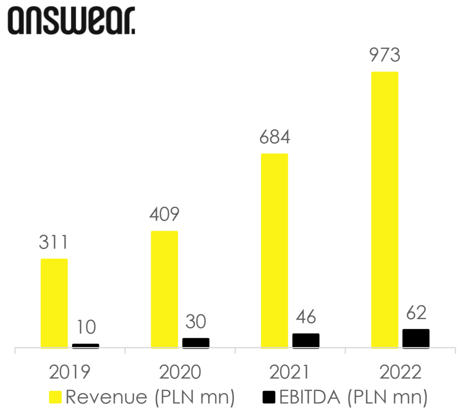
Source: Rekvizitai.lt; pigu.lt standalone figures

Key initiatives are currently further improving the 1P offering and driving the 3P growth through a lot of additional merchants from the Baltics as well as increased efforts to onboard international merchants. The new cooperation with IAI was a milestone to secure future growth. MCI exited part of their stake in 2021 as Pigu.lt merged with Hobby Hall Group. The company is part of MCI.EuroVentures 1.0 portfolio with the exit planned for 2027.

ANSWEAR (MCI stake: 23.3%)

Answear is **one of the fastest growing fashion e-commerce platforms in Europe** and among the biggest CEE multi-brand clothing retailers. Their offer includes over 500 global brands and 100,000 products; additionally the company is rolling out its own in-house label. Answear experienced a staggering sales growth of 67% and 42% p.a. over the past two years, significantly above the growth rate of competitors such as Zalando, Boozt or ASOS. In 2019 and 2020 it also reached positive EBITDA levels before the company was IPOed in January 2021 with a partial exit of MCI.

Financial highlights



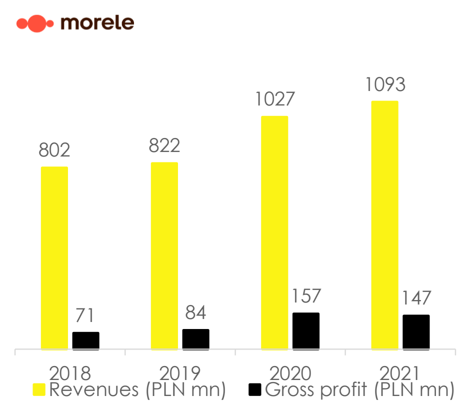
Source: Company filings

Since then the company's EBITDA still grows year by year at a double-digit rate. Answear is actively developing their product offer in new categories, premium, sport/outdoor, and home/lifestyle. In addition, more intense marketing activities are targeting a wider-reach media campaigns in 11 Answear markets. The exit is currently planned for 2024. The company is part of MCI.TV and MCI.EV funds. Answear is also included in the coverage universe of RBI Institutional Equity Research.

MORELE (MCI stake: 51.6%)

Morele.net is **a leading multicategory e-commerce platform** in Poland combining the best of first-party and third-party models. Established in 2004, the company is successfully managed by its two founders. Currently, Morele.net follows the strategy of extending the Group's range to include new categories in their e-commerce portfolio and to build out the marketplace offering. The group benefits from the relatively low penetration of the Polish market by global players such as Amazon and eBay.

Financial highlights



Source: Company filings

The company reached average growth levels of 25% over the past four years. The management is working on adapting the company to the new market environment in terms of cost base and sales channels. The company is part of MCI.TechVentures 1.0 fund and the exit is planned for 2025.

Companies valued internally but audited semi-annually

Investments are valued internally by MCI, in accordance with the best practices and commonly used accounting and valuation methodology for public and private equity funds. Valuations are audited semi-annually by EY. Following an acquisition, the investment is initially recognised at cost for up to one to two years. For subsequent periods MCI uses multiples-based valuation methods to adjust the value of their investments. Multiples are based on comparable companies in terms of business model and firms from various jurisdictions (also US, etc.) are considered for inclusion in the respective peer group. Generally, MCI applies a liquidity discount (ca. 15%) to its valuations and in certain cases sometimes due to specific (country/regional/internal) risk factors impacting valuation MCI uses additional discounts. For companies in the MCI.EuroVentures 1.0 fund, most of which are profitable on EBITDA, an EV/EBITDA multiple is applied. As many of MCI.TechVentures 1.0 investments still don't generate fully developed last 12 months EBITDA, due to the fund being more focused on earlier-stage investments, EV/Sales and EV/gross margin multiples are the predominant valuation multiples used (however, for some of the MCI.TV companies, the valuation methodology may be switched in the future to EV/EBITDA multiple as they are expected to be transactional on EBITDA at exit). MCI's exits reflect the prudence of their valuations most accurately, as the realised exits (details are presented in Table 1 below) were predominantly above the last valuation resulting from the books. The MCI.TV's NAV amounts to only ~10% of total MCI Capital's NAV.

Track record and planned exits

In terms of exits MCI Group shows a strong track record. Since 2012 the company has done 12 larger exits (excl. Tatilbudur which was a smaller transaction) of its buyout and expansion portfolio – most of the companies were under the control of MCI or held as a joint venture. The median exit value amounted to EUR 36 mn, while the total volume realised over the period is equivalent to almost EUR 600 mn. It is worth noting that historically realised multiples upon investment exits have always exceeded internal investment valuations. Current portfolio includes a mix of companies with healthy financial position that does not require significant additional outlays from the fund.

Selected historical exits

Company	Country	Control	Entry Date	Exit Date	Years held	MCI value (in EUR mn)**	Gross MoIC	Gross IRR
invia	CZ	Control	Apr-08	Mar-16	7.92	58.8	5.0x	41%
MALL.CZ	CZ	JV	Sep-10	Oct-12	2.08	35.1	4.1x	174%
WP	PL	JV	Jan-14	Dec-16	2.92	35.4	2.7x	54%
NETIA	PL	JV	May-14	Apr-15	0.92	36.6	1.1x	18%
life brain	AT	JV	Jun-15	May-18	2.92	31.7	1.7x	21%
iZettle	SWE	Minority	Oct-15	Sep-18	2.92	35.5	3.7x	62%
dotpay / eCard	PL	Control	Jul-15	Jan-19	3.51	56.8	3.1x	38%
ABCDATA	PL	Control	Nov-07	Jun-19	11.59	59	2.2x	12%
netrisk.hu	HU	Control	Dec-17	Jan-20	2.08	70.2	4.1x	104%
INDEX GRUP	TR	Minority	May-13	Apr-20	6.92	29	1.3x	7%
atman	PL	Control	Mar-16	Dec-20	4.76	110.7	2.8x	30%
pigu.lt	Baltics	Control	Jul-15	Mar-21	5.67	31.3	2.8x	20%
Total realized					**3.2***	**590.1**	**2.5x**	**28.1%**

**Median, **Converted with EUR/PLN FX rate of 4.6*

Source: MCI Capital

The realised return of the selected historical exits in the table above is slightly higher than the benchmark that private equity firms are currently targeting. According to a survey done by Paul Gompers at al. (Private Equity and Covid, 9/2020), the median PE fund targets a 25% IRR and 2.5x MoIC (Multiple on Invested Capital), which compares to MCI Group's historical 28.1% IRR and 2.5x MoIC. The 2.5x MoIC is also similar to what a report from eFront finds for holding periods of more than five years. According to the report, holding periods below five years result in less than a 2x gross multiple on invested capital, while this increases and then stabilises at more than 2.5x beyond five years, reaching a maximum of 2.6x with a holding period of nine to ten years. MCI's median holding period of 3.5 years fares relatively well against this comparison.

Portfolio with exit value between PLN 2.5 and 4.0 bn

MCI has an exit pipeline until 2027 which encompasses an estimated exit value between PLN 2.5 and 4.0 bn, most of which (EUR 426 mn) is to be reinvested into the funds through one to three investments per year with a ticket size of EUR 25-100 mn. The table below shows the planned exit pipeline. In March 2022 MCI completed the exit from British payment solutions provider Azimo which MCI entered in 2015. The exit was partially settled in cash and partially in Papaya Global shares.

Planned exists

Source: MCI Capital

Market outlook

Supported by new technologies, industries and business models are constantly changing and replacing traditional businesses. With regard to the accelerating speed of disruption, responsible managers are forced to respond with an adequate digital solution in order to stay competitive. Truly transformed companies have digital infrastructure, digital processes as well as digital customers at their disposal. In the last few years, digital transformation has taken place across all industries, revealing how the future development of society and the economy can be expected to unfold. With regard to funding issues in early stages, private equity facilitates to overcome this first hurdle.

While the valuations of e-commerce and tech companies have significantly come down in 2022 due to a mix of weakening in macro conditions, rising interest rates and geo-political tensions, fundamentally strong companies with sound operations do provide an upside once the macro and capital markets situation normalize. This presents PE specialists with opportunity for new investments at attractive prices with ultimate goal to drive high results in the forthcoming years.

CEE market attractive for PE firms

Compared to the EU-27 and Euro area average, the GDP growth rates observed in the CEE were historically higher. However, due to higher inflation and rising interest rates a slowdown is expected in year 2023.

Real GDP (% yoy)

Country	2021	2022	2023e	2024f	2025f
Euro area	5.3	3.5	0.3	2.0	1.3
Austria	4.6	5.0	0.9	1.8	1.6
Bulgaria	7.6	3.4	1.8	3.5	3.5
Croatia	13.1	6.3	1.6	2.5	3.0
Czech Republic	3.5	2.4	0.9	3.3	2.9
Hungary	7.1	4.6	1.0	3.5	4.0
Poland	6.8	4.9	1.0	3.6	3.5
Romania	5.8	4.8	3.0	4.5	4.0
Slovakia	3.0	1.7	1.0	2.4	2.5
Ukraine	3.4	-29.2	1.8	7.5	6.5

Source: Refinitiv, Focus Economics, RBI/Raiffeisen Research

Our view is that the magnitude of the slowdown will largely depend on the labour market reaction. The RBI Research base scenario forecasts limited impact amid tight labour markets (hoarding rather than large layoffs).

Unemployment (avg, %)

Country	2021	2022	2023e	2024f	2025f
Euro area	7.7	6.7	7.1	7.0	6.8
Austria	6.2	4.8	5.1	4.9	4.8
Bulgaria	5.3	4.3	4.1	4.0	4.2
Croatia	7.6	6.9	6.8	6.7	6.5
Czech Republic	3.8	3.4	4.0	3.8	3.5
Hungary	4.1	4.0	4.2	4.1	4.0
Poland	6.0	5.4	5.1	5.8	5.9
Romania	5.6	5.6	5.5	5.0	4.5
Slovakia	6.9	6.2	6.2	6.0	5.7
Ukraine	9.1	18.0	12.0	10.0	9.0

Source: Refinitiv, Focus Economics, RBI/Raiffeisen Research

According to recent RBI Research analysis, 2023 is set to be the year of disinflation, with ongoing declines in food and energy prices. However, this should not distract from the fact that inflation is expected to remain elevated — in some countries even in double-digit territory for most of 2023 — and well above inflation targets by central banks (possibly even well into 2024). Therefore, interest rates are expected to remain high for longer, with first rate cuts this year only being possible in the Czech Republic and Hungary, in our view.

CPI inflation (avg, % yoy)

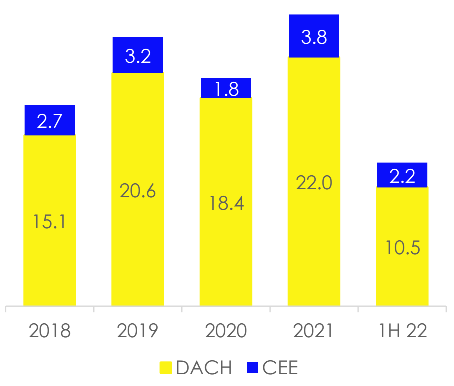
Country	2021	2022	2023e	2024f	2025f
Euro area	2.6	8.4	5.2	2.7	2.2
Austria	2.8	8.6	7.0	3.5	2.5
Bulgaria	3.3	15.3	9.5	3.5	3.2
Croatia	2.6	10.8	6.6	3.4	2.2
Czech Republic	3.8	15.1	11.3	3.7	2.4
Hungary	5.1	14.5	19.0	6.7	5.1
Poland	5.1	14.3	13.3	6.2	3.3
Romania	5.1	13.8	10.4	5.1	3.4
Slovakia	2.8	12.1	9.8	3.9	3.8
Ukraine	9.3	20.0	20.2	15.3	10.0

Source: Refinitiv, Focus Economics, RBI/Raiffeisen Research

Growing markets, centred in Europe, in combination with a large share of the EU population, create an environment in which long-term investment decisions should be made. Over the years a few investments and value creation strategies were identified, aiming for maximised returns based on the attractiveness of the CEE area. Especially upcoming and mature companies in the digital industry that are quickly developing, where MCI is positioned as a leading private equity company with a compelling track record successful purchases and sales. The mix of available human resources, need for technical/digital developments, numerous government support programs as well as dynamic local environments all together lead to technological investment and innovation. Another topic highlighting the attractiveness of CEE for investors is the implementation of ESG related topics in the company's strategic orientation.

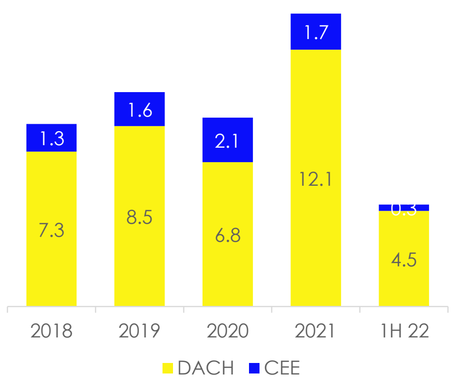
Based on the Private equity activity H1 2022 report, the allocated investments gap between DACH and CEE region remains quite high. Nonetheless, the CEE region presents an attractive opportunity for PE funds as they can benefit from relatively easy access to a large consumer market, a specialized workforce, and noticeably lower entry costs, which is all partially offset by a perception of higher risk and instability. After a drop in investments value in 2020 due to Covid-19, the total investments value rebounded in 2021 to reach an all-time high in both regions. Preliminary figures for 1H 2022 suggest that this strong momentum is being continued, however the high uncertainty in global investment environment as well as increased volatility in the capital markets have impacted the total value of funds raised also in DACH and CEE regions.

PE investments by region (EUR bn)



Note: 1H22 data is preliminary and subject to change
Source: Invest Europe

PE funds raised by region (EUR bn)



Note: 1H22 data is preliminary and subject to change
Source: Invest Europe

MCI is the only listed and the largest digital PE player

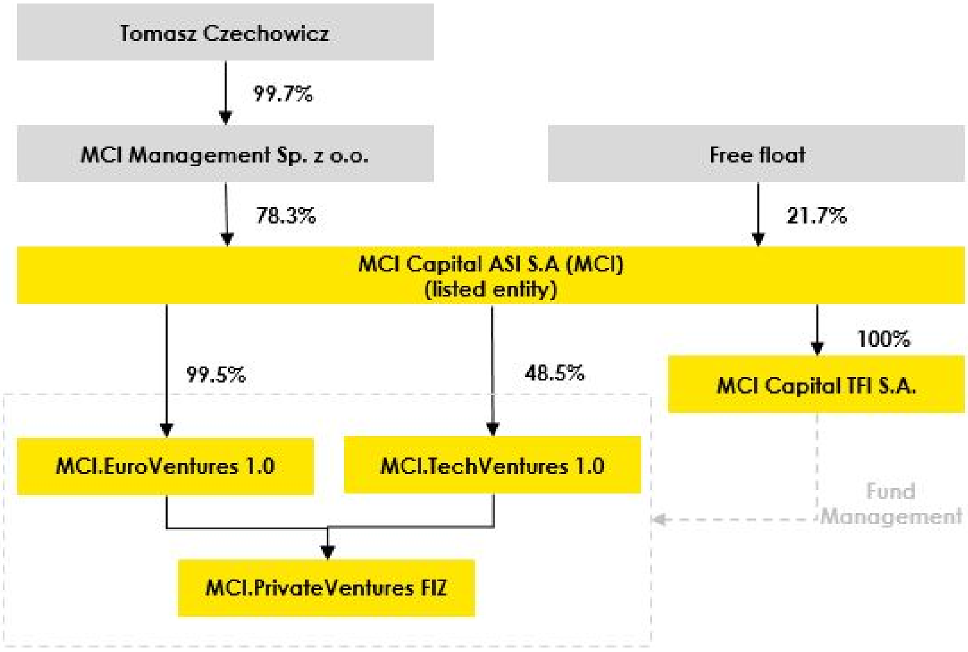
MCI Capital has several non-listed peers focusing on CEE, such as MidEuropa partners (~EUR 6 bn funds raised and managed since inception, active in various industries), Enterprise investors (EUR 2.2 bn invested since inception, various industries), Innova (EUR 1.1 bn funds raised since inception, various industries), Abris (EUR 1.2 bn funds raised, various industries) and Rockaway (smaller than MCI, focus on digital/IT). According to MCI, in 2022 their share by asset value in the region increased to ~20% which ranks them #3 behind only MidEuropa and Enterprise Investors. What sets MCI Capital apart in this peer group is that it is the only listed Private Equity firm in the region and the largest player in the digital segment.

Corporate governance

Founded by current managing partner Tomasz Czechowicz

MCI Capital was founded by Tomasz Czechowicz in 1999. He still remains on board as managing partner and owns 78% of the group through MCI Management Sp. z o.o, and the remaining 22% are free float. Previously MCI Capital's funds were managed externally through the associated public company Private Equity Managers S.A (PEM) in which MCI held a 29% stake before PEM was merged into MCI Capital ASI in 2021. PEM specialised in private equity funds, including venture capital funds and private debt, and was earlier established as a spin-off of the asset management business of MCI Group in 2010 to 2012. Following the merger, the company's funds are being managed internally through its 100% subsidiary MCI Capital TFI S.A. Investment into the funds is done through investment certificates. MCI owns 99.5% of the investment certificates in MCI.EuroVentures 1.0 and 48.5% of the certificates in MCI.TechVentures 1.0, the remaining being attributed to external investors.

Organisational structure



Source: MCI Capital

Dividend policy

The company informed us that the Management Board plans to recommend a change in the capital distribution policy and introduce the possibility for share buybacks in the next two years. This means that the shareholders will be able to sell their shares in MCI Capital to an entity from the MCI Group in 2023 and 2024 with a premium to the market price (note the current NAV/S discount), according to the management. The total value of the MCI's shares subject to potential share buybacks will not be higher than 2% of MCI's equity.

Internal financing and liquidity management

The internal debt/internal financing is an element of liquidity management within the MCI Group. This allows MCI.EV to invest its free cash flows, as MCI.EV receives interest for it. As of December 31, 2022 the internal financing amounted to PLN 346 mn. The financial terms of the internal financing are in line with market conditions, which means that MCI.EV receives interest for providing this financing (MCI Capital ASI SA and MCI Management Sp. z.o.o. incur financial costs). Such investments are each time preceded by an investment decision approved by the Investment Committee of MCI Capital TFI SA (fund manager), as the fund/subfund cannot act to the detriment of participants. This internal financing is planned to be refinanced with bank debt within the next 2 years. Total liquidity position at the MCI Group level as at 31.12.2022 was PLN 732 mn.

Management and investment team

Tomasz Czechowicz is the founder and majority shareholder of MCI Captal and has remained managing partner of the private equity company until today. He has an IT and entrepreneurial background, having co-founded JTT Computer in the 90s, which he turned into one of the leading CEE PC assembly and distribution centres. In 1999 he founded MCI Group, where he is responsible for the development strategy and business plans as well as the group management.

MCI.TV and MCI.EV funds are managed by the founder and majority shareholder Tomasz Czechowicz. Ewa Ogryczak, who is a certified auditor and former Partner at PKF Consult and Manager at KPMG, is a vice president and COO of MCI Capital and is responsible for all operating aspects of the MCI business activities as well as fundraising.

Besides Tomasz Czechowicz, the investment team consists of eight additional members. Michał Górecki is a Senior Investment Partner (promoted in 2023) who works in close cooperation with five Investment Partners: Filip Berkowski, Stefan Krüger (also acts as Head of E-commerce and market place practice), Greg Dębicki (also Head of Syndication), Paweł Sikorski and Tomasz Mrozowski (both joined in February 2023). Hubert Wichrowski is a Senior Investment Manager and Wojciech Degórski is an Investment Manager (hired in February 2023). Additionally, the team is supported by three Senior Analysts.

Supervisory board headed by Zbigniew Jagiełło

Effectively appointed in June 2022 as the Head of the supervisory board, Mr Jagiełło has been working in capital market institutions since 1995 and was between 2009-2021 the president of PKO Bank Polski. The supervisory board has in total five members, additionally including also Jaroslaw Dubinski, Andrzej Jacaszek, Grzegorz Warzocha, Marcin Kasiński.

Vast network of advisers

Additionally, management is being supported by several senior advisors and non-executive directors. Those include partners at renowned consulting firms (Piotr Czapski, ex EQT Partners; Franek Hutten-Czapski, BCG), law firms and CEOs, Vice presidents and executive directors from other firms, mostly focusing on financial services, technology or strategic planning.

Sustainability

Over the course of the pandemic MCI Capital has developed an ESG strategy, taking into account the UN Sustainable Development Goals and the standards developed by IFC on environmental and social issues. All investment decisions by MCI will be assessed in terms of their impact on ESG issues and MCI wants to promote activities aimed at reducing GHG emissions, increasing energy and natural resources efficiency. Especially companies such as AsGoodAsNew, which is active in the area of refurbished high-tech consumer electronics, contribute to this goal.

Financials

MCI Capital merged with PEM S.A., the former parent of the fund management company MCI Capital TFI, in FY 21, which limits the comparability of financial statements on a historical basis as the fund management was integrated and thus the costs internalised instead of outsourced. The primary driver of MCI's P&L is the valuation of investment certificates in the MCI.EuroVentures 1.0 and MCI.TechVentures 1.0 subfunds, which are generally valued internally.

On the back of the merger, the expenses for fund management have been integrated into MCI as operating expenses, while being largely compensated for by revenues from fund management which are being charged to the individual funds of MCI. The funds are not consolidated but are recognised in the balance sheet as a financial instrument according to the fair value of the investment certificates held.

FY 22 lookback

The revaluation of MCI.EV investment certificates contributed positively by PLN 282 mn, driven by investments in eSky (PLN 276 mn), Netrisk (PLN 49 mn), IAI (PLN -51 mn) and Pigu.lt (PLN -34 mn). However, this was offset by the negative result from revaluation of the MCI.TV investment certificates in amount of PLN -291 mn. Several investments have declined in value; led by Morele with PLN -155 mn, Gett with PLN -73 mn, and Travelata with PLN -31 mn. The realised loss on disposal of investments was PLN 25 mn. The rate of return of the MCI.EV and MCI.TV in FY 22 was 16.8% and -40.3%, respectively.

Due to MCI's obligation to compensate the participant (MCI.CV) for the minimum return on investment in MCI.TV certificates of up to 5% p.a., there was a negative effect of revaluation of other financial instruments of PLN -17.4 mn because of this guarantee mechanism. Revenues from fund management amounted to PLN 16.7 mn, out of which PLN 10.5 mn is attributed to MCI.EV fund and PLN 5.9 mn is attributed to MCI.TV. The management fee was charged only on series of investment certificates belonging mainly to MCI Group. In line with the fund's statute, the management fees on investment certificates held by external participants were not charged as there was no basis for it (MCI.TV had a negative rate of return).

Income statement

(in PLN k)	*2020**	*2021**	*2022*	*Δ %*	*comments*
Profit/loss on investment certificates	**164,095**	**374,078**	**158,196**	**-57.7%**	Revaluation effect of MCI.EV (+282 mn) and MCI.TV (-291 mn); positive revaluation of eSky
Revaluation of shares	2,149	440	-134	-130.5%	
Revaluation of other financial instrum	-4,080	5,736	-17,411	-403.5%	MCI.TV min. rate of return guarantee (5% p.a.)
Revenues from fund management	54,268	31,320	16,710	-46.6%	o/w MCI.EV PLN 10.5mn; MCI.TV PLN 5.9mn
Costs of core activities	-173	-3,896	-813	-79.1%	Distribut. fees were fully not charged (neg. return)
Investment profit	**216,259**	**407,678**	**156,548**	**-61.6%**	
Operating expenses	-36,389	-50,059	-20,396	-59.3%	Remuneration (PLN 11 mn) and ext. services (8 mn)
Other operating income/costs	453	646	474	-26.6%	
Net financial costs	-11,894	-11,442	-23,685	107.0%	Interest on bonds (-21 mn), bank loans (-3 mn)
Profit before tax	**168,429**	**346,823**	**112,941**	**-67.4%**	
Income tax	-34,076	118,967	30,320	-74.5%	Deferred income tax of PLN +29mn
Net profit	**134,353**	**465,790**	**143,261**	**-69.2%**	

** Merger with PEM in June 2021, changes due to consolidation only reflected in FY 20 & 21 data*

Source: MCI Capital

Operating expenses in FY 22 included costs of remuneration and social security contributions which were PLN 11 mn, costs of external services amounted to PLN 8 mn, depreciation to PLN 0.6 mn and other costs were PLN 1.2 mn.

Net financial costs were up by 107% yoy and were mainly driven by the interest on bonds in the amount of PLN 21 mn; up yoy from PLN 10 mn due to the issue of series T2 bonds and increasing interest rates. In addition, interest expense on bank loans increased yoy to PLN 3.0 mn from PLN 0.8 mn. These expenses were slightly moderated by positive contribution from the remuneration for the provision of investment certificates against credit facility for MCI.EV and MCI.TV (at sub-funds' level) in amount of PLN 1.1 mn and interest income in amount of PLN 1.0 mn.

Income tax (PLN 30.3 mn) was mainly the effect of the change in deferred tax on the valuation of MCI.TV investment certificates due to its decrease in portfolio value.

In FY 22 MCI Capital managed to achieve a net profit of PLN 143 mn, down by -69% yoy. The valuations of companies within the funds' portfolios were directly impacted by the unstable environment (mix of macro uncertainty, rising interest rates, geopolitical tensions) which had a negative revaluation effect on technology companies' valuations globally (especially when using comparative models). This impact was particularly visible in the Q1 22. Nonetheless, the operating results of the fund's investments seem to remain resilient and the despite the headwinds the company has distributed a dividend in amount of PLN 37 mn in September 2022.

Balance sheet

(in PLN k)	*2020**	*2021**	*2022*	*Δ %*	*comments*
Investments certificates	1,662,022	2,008,606	2,148,788	7.0%	Positive revaluation of certificates
Other Investments	54,218	1,007	5,911	487.0%	
Receivables	35,603	28,561	10,621	-62.8%	
Other assets	2,056	5,089	22,358	339.3%	
Cash and cash equivalents	38,918	20,970	37,499	78.8%	Strong liquidity position
Total assets	**1,792,817**	**2,064,233**	**2,225,177**	**7.8%**	
Equity	**1,355,872**	**1,808,247**	**1,916,225**	**6.0%**	
Liabilities due to bonds	198,418	126,764	199,707	57.5%	T2 series bonds issued
Other debt (bank, promissory notes, bills of exchange)	67,887	95,842	90,004	-6.1%	
Deferred tax liabilities	131,313	10,613	0	-100.0%	
Provisions	17,047	13,699	13,317	-2.8%	
Other liabiltiies	22,280	9,068	5,924	-34.7%	
Total liabilties	**436,945**	**255,986**	**308,952**	**20.7%**	
Liabilities and Equity	**1,792,817**	**2,064,233**	**2,225,177**	**7.8%**	

** Merger with PEM in June 2021, changes due to consolidation, not reflected in historical data*

Source: MCI Capital

Peer Group

Peer group overview (YE 2022)

Company name	Description	Portfolio size	Country focus
3i Group	A British private equity and infrastructure investment company listed on the LSE. The company has a portfolio of almost GBP 18 bn (> EUR 20 bn). There is no particular sector focus as sectors which the company invests in include infrastructure, consumer, industrials, energy and health care. The average gross investment return amounted to 22% over the past five years with 43% in FY 21 (2021 26%).	EUR 20.4 bn	Global
Gimv	A European private equity company listed on Euronext Brussels. Investments focus on Western Europe, mostly the Benelux region and Germany. The portfolio includes companies from various industries. The company realised an average portfolio return of 14% p.a. since FY 17/18 with a decline in portfolio valuation of 10% in FY 19/20 on the back of the corona pandemic. FY 21/22 saw a recovery of 20% and H1 22/23 a return of -3.5%.	EUR 1.5 bn	Western Europe
Eurazeo	Eurazeo is a French investment company focusing on private equity (ca. 75%), private debt (21%) and real assets (4%). The company is active across four continents with the focus on fast growing market segments in Europe and North America. They reported realized investments with an average gross CoC multiple of 3.5x and gross average IRR of 33% with 18% realised in 2022.	EUR 8 bn (EUR 34 bn AuM)	Global
Deutsche Beteiligungs AG	Deutsche Beteiligungs AG is a listed private equity company from Germany that manages closed-end private equity funds. The focus is on German mid-market companies, particularly in the industrial sector. They achieved a capital multiple of 2.5x on average since 1995.	EUR 570 mn (EUR 2.5 bn)	Germany
Molten Ventures	Molten Ventures is a venture capital firm investing in high-growth technology companies. The company is listed on the London Stock Exchange. They invest in innovative Deeptech, Consumer Tech, Healthtech and SaaS and Enterprise software. The target return of Molten Ventures is ca. 20% through the cycle, with a 15% return target for 2022. In 2021 portfolio value increased by 51%.	EUR 1.6 bn	UK, USA, EU, CEE
Altamir	Altamir is a listed (Euronext Paris) private equity company which invests through and alongside of the funds managed by Apax Partners. The company is managed by Maurice Tchenio, one of the founders of Apax Partners. He owns a 65% stake in the company. Altamir pays a dividend of 2-3% of year-end NAV.	EUR 1.4 bn	Global (Europe 82%, USA 12%, other 6%)
IDI Emerging Markets	IDI EM is financing SMEs in emerging markets by pure co-investments alongside local private equity funds or direct investments. IDI is partnered with idi Group, a leading European private equity institution, listed on the NYSE Euronext Paris.	EUR ~1 bn	China, India, South-East Asia, Latin America, Middle-East and Africa
Ratos	Ratos, a Swedish private equity institution, is targeting companies headquartered in the Nordics to contribute to the long-term and sustainable operational development. The three focused business areas are Construction & Services, Consumer as well as Industry. Financial goals include EBITA growth to at least SEK 3 bn by 2025 or a dividend payout ratio of 30-50% of profit after tax.	not reported	Nordics

Source: Company information

Peer valuation

MCI Capital's peers are generally valued at a median 0.7x book value (which should reflect the fair value of portfolio companies) for FY 22a and FY 23e and have a median dividend yield of 3.2% in FY 22a and 4.0% in FY 23e. In comparison, MCI Capital's valuation seems quite attractive relative to its peers, as the company is currently trading at a ~56% discount to its trailing NAV as of YE 2022. The share price currently trades at a 34% P/B discount to the average of other listed private equity and venture capital companies that trade at a trailing P/BV of ~0.8x. We acknowledge that a slight discount to peers might be justified on the back of a lower free float.

Peer group benchmarking

Company name	Mkt. cap[1)]	P/E				P/B				Dividend yield			
		22a	23e	24e	25e	22a	23e	24e	25e	22a	23e	24e	25e
3i Group PLC	18,825	4.1	4.3	6.8	6.1	1.1	1.0	0.9	0.8	0.0%	3.0%	3.3%	3.7%
Gimv NV	1,271	7.3	n.a.	n.a.	n.a.	1.0	n.a.	n.a.	n.a.	5.9%	5.8%	5.8%	5.8%
Eurazeo SE	5,038	8.5	7.4	6.9	9.3	0.7	0.6	0.4	n.a.	3.4%	3.3%	3.7%	4.6%
Deutsche Beteiligungs AG	521	-5.3	6.9	5.2	3.9	0.8	0.8	0.7	0.6	2.9%	5.4%	5.9%	5.9%
Molten Ventures PLC	497	1.5	-2.1	3.1	1.9	0.3	0.3	0.3	0.3	0.0%	0.0%	0.0%	0.0%
Altamir	1,029	-38.3	42.5	38.9	n.a.	0.7	1.5	1.5	n.a.	4.2%	4.6%	4.8%	n.a.
IDI SCA	402	5.0	19.1	17.5	n.a.	0.6	0.6	0.6	n.a.	4.0%	4.4%	4.8%	n.a.
Ratos AB	694	14.3	7.5	8.3	6.9	0.6	0.8	0.9	0.9	2.7%	3.6%	4.1%	4.4%
Median		**4.6**	**7.4**	**6.9**	**6.1**	**0.7**	**0.8**	**0.7**	**0.7**	**3.2%**	**4.0%**	**4.4%**	**4.5%**
MCI Capital	204	5.9				0.4				4.4%			

1) in EUR mn; as of April 12, 2023

Source: Bloomberg, RBI/Raiffeisen Research

Peer group ROE

Company name	Currency	Last price[1)]	5Y historical average	2022a	2023e	2024e	2025e
3i Group PLC	GBp	1,700.0	20.1%	31.5%	23.5%	13.0%	12.8%
Gimv NV	EUR	46.7	7.0%	12.2%	n.a.	n.a.	n.a.
Eurazeo SE	EUR	66.6	8.5%	6.4%	7.8%	6.2%	n.a.
Deutsche Beteiligungs AG	EUR	27.7	6.3%	-16.8%	11.9%	14.0%	16.5%
Molten Ventures PLC	GBp	285.4	22.2%	21.0%	-16.5%	10.0%	14.1%
Altamir	EUR	28.2	14.0%	-3.7%	3.4%	3.9%	n.a.
IDI SCA	EUR	57.4	17.3%	13.0%	3.2%	3.4%	n.a.
Ratos AB	SEK	32.5	17.3%	13.0%	3.2%	3.4%	n.a.
Median			**15.6%**	**12.6%**	**3.4%**	**6.2%**	**14.1%**
MCI Capital			6.6%	7.7%			

1) as of April 12, 2023

Source: Bloomberg, RBI/Raiffeisen Research

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