

MCI Management

Poland, PE/VC fund

Reuters: MCIM.WA Bloomberg: MCI PW

25 March 2011

Time to grow

Recommendation BUY. Target Price at PLN 10.30

MCI Management published FY'10 figures showing record high quarterly and annual profits of PLN 99m and PLN 156m. MCI has also announced FY'11 official guidance for a net profit of PLN 171m, a BVPS of PLN 10.76 and an AUM of PLN 1.2bn (including committed funds, value as of Mar'12). The company set a target AUM of PLN 1.8bn before Mar'13 and new investments to the value of PLN 242m. If this scenario materializes, MCI could enter a golden age and its share price may accelerate its march north. The company looks cheap even on trailing figures, with a 12m trailing P/E of 3.1x. If management delivers on its promises, 2011's P/E will settle at 2.8x, a stunning number compared to its peer group level of 11.6x. Our more conservative predictions suggest a 2011 bottom-line of PLN 80m, indicating a P/E level of 6.8x. Moreover, 4Q'10 NAV exceeded MCI's market capitalization and we believe that the company's NAV is now PLN 470m – very close to its current valuation. We believe that MCI's valuation should exceed its current NAV, if future earnings and the value of the management firm are taken into account. Since our HOLD recommendation in Dec'10, MCI's share price has fallen by 3.4%, underperforming the broad market (the WIG rose by 2.3%). Updating our forecasts for MCI, we are increasing our 12-month Target Price to PLN 10.30 and changing our recommendation to BUY on the basis of a 24% upside potential.

MCI reported healthy figures for the whole of FY'10, beating our net profit estimates by 25%. A bottom-line of PLN 156m indicates a P/E of 3.1x, while its peer group is trading at 12x. The main net profit driver was ABC Data's share price, however, even without this contribution, MCI would have reported a ca. PLN 46m gain indicating a trailing 10.4x P/E ratio. AUM grew to PLN 763m – a stunning 80% y/y growth.

MCI remains optimistic about its future performance and has set an official FY'11 guidance for its bottom-line at PLN 171m and for an AUM of PLN 1.2bn, or a PLN 2.6 gain per share (P/E 3.2x). Our more conservative approach suggests a PLN 80m gain, or a PLN 1.2 gain per share (P/E 6.9x). This discrepancy may result from the fact that we value MCI's management firm separately and then add this to our valuation while MCI may try to make an IPO of MCI Partners on New Connect this year. If this scenario materializes, MCI's net profit would be boosted significantly. In our opinion, without this transaction it will be difficult for MCI to deliver on its guidance figures, unless ABC Data's share price sky-rockets.

As we see this, investors should pay close attention to MCI's forecasts for AUM – PLN 1.2bn in 2011 and PLN 1.8bn in 2012. We believe that, while net profit may be volatile, AUM inflows should rise steadily. MCI's guidance indicates that the company would like to raise at least PLN 200m of external funds in 2011, more than doubling their current external AUM.

We believe there are two significant risk factors for MCI's share price short-term performance. Firstly, in the case of a **stock market pullback**, MCI's share price could under-perform the market due to its historical volatility and high beta. Secondly, there is a **share supply risk** from holders of series B convertible bonds. Bonds are deep in the money (strike price PLN 6.25) and out of 8m shares outstanding, 1.4m were converted before 2010/12/31 while an additional 0.9m have been converted this year.

Based on an adjusted net assets value, the DCF valuation of MCI's management company and assuming a core net profit of PLN 80m for 2011, we value MCI's equity at PLN 680m and set a 12-month Target Price of PLN 10.30 per fully diluted share. The entailed 24% upside potential prompts us to upgrade our rating to BUY.

MCI: Financial summary

PLN in millions, unless otherwise stated

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|------------|------|------|-------|-------|-------|-------|
| Revenues | 1.1 | 8.8 | 11.5 | 18.9 | 26.7 | 32.5 |
| EBIT | 31.6 | 50.0 | 163.7 | 90.3 | 133.1 | 162.2 |
| Net profit | 21.6 | 44.4 | 156.1 | 80.1 | 122.3 | 150.7 |
| P/E (x) | 16.4 | 8.6 | 2.7 | 6.8 | 4.5 | 3.6 |
| BVPS | 4.6 | 5.6 | 7.5 | 8.8 | 10.7 | 13.0 |

Source: Company data, DM BZ WBK estimates, 2010 multiples based on average number of shares, 2011+ estimates based on fully diluted number of shares

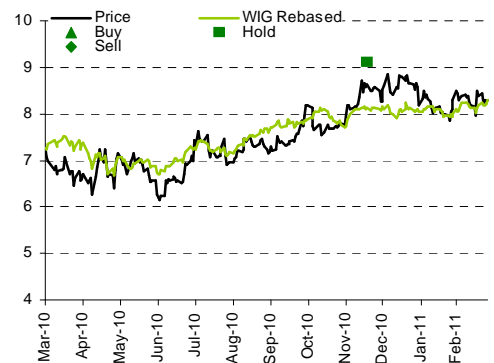
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Recommendation
BUY
Portfolio weighting

–

| | |
|------------------------------------|-------|
| Price (PLN, 25 March 2011) | 8.30 |
| Target price (PLN, 12M) | 10.30 |
| Market cap. (PLN m) | 477 |
| Free float (%) | 53.0 |
| Number of shares (m) | 66.0* |
| Average daily turnover 3M (shares) | 157k |
| EURPLN | 3.99 |
| USDPLN | 2.84 |

*fully diluted



The chart measures performance against the WIG index. On 25/03/2011, the WIG index closed at 48,626.

| Rec. | Date | Price | | Performance | |
|------|------------|---------------|-----------------|-------------|----------------|
| | | on issue date | 12 month target | absolute | Relative (p.p) |
| Hold | 12/17/2010 | 8.59 | 9.10 | -3.4% | -5.7 |

| Main shareholders | % of votes |
|--|------------|
| Tomasz Czechowicz and related entities | 47.0% |

Company description

MCI Management is a private equity/venture capital fund operating in Central and Eastern Europe. MCI invests in innovative companies in the following sectors: Internet, mobile technology, e-commerce, wireless technologies, software, IT, biotechnology/life science and media.

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Valuations

Fig. 1. MCI management company: DCF analysis

PLN in millions, unless otherwise stated

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|------------------------------|--------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|
| AUM | 300 | 351 | 422 | 507 | 609 | 732 | 880 | 1,057 | 1,270 | 1,526 |
| Management fee | 6.9 | 9.8 | 11.6 | 13.9 | 16.7 | 20.1 | 24.2 | 29.1 | 34.9 | 41.9 |
| EBITDA | 3.5 | 4.9 | 5.8 | 7.0 | 8.4 | 10.1 | 12.1 | 14.5 | 17.5 | 21.0 |
| Tax | 0.7 | 0.9 | 1.1 | 1.3 | 1.6 | 1.9 | 2.3 | 2.8 | 3.3 | 4.0 |
| Free cash flow | 2.8 | 4.0 | 4.7 | 5.6 | 6.8 | 8.2 | 9.8 | 11.8 | 14.1 | 17.0 |
| WACC | 12.7% | | | | | | | | | |
| PV FCF 2011-2020 | 39 | | | | | | | | | |
| Terminal growth | 1.0% | | | | | | | | | |
| Terminal Value (TV) | 175 | | | | | | | | | |
| PV TV | 53 | | | | | | | | | |
| Total EV (1 Jan 2011) | 92 | | | | | | | | | |
| Month | 3 | | | | | | | | | |
| Total EV (1 Mar 2011) | 95 | | | | | | | | | |
| 12-month Target EV | 108 | | | | | | | | | |
| AUM growth | 87.5% | 16.9% | 20.4% | 20.1% | 20.2% | 20.2% | 20.2% | 20.2% | 20.2% | 20.2% |
| Management fee growth | 110.8% | 41.4% | 18.8% | 20.3% | 20.1% | 20.2% | 20.2% | 20.2% | 20.2% | 20.2% |
| FCF growth | 110.8% | 41.4% | 18.8% | 20.3% | 20.1% | 20.2% | 20.2% | 20.2% | 20.2% | 20.2% |
| EBITDA margin | 1.2% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% | 1.4% |

Source: DM BZ WBK estimates, encompasses only external funds

Fig. 2. MCI: DCF valuation summary table

PLN in millions unless otherwise stated

| | EV | Total EV | Total value per share |
|--------------------|-----|------------|-----------------------|
| Management company | 108 | | |
| adj. NAV | 571 | | |
| | | 680 | 10.30 |

Source: DM BZ WBK estimates, fully diluted number of shares

Comparable valuation

Fig. 3. MCI: Peer group multiples

| Company | Price | Currency | Market Cap (EURm) | P/E | | | AUM USD bn | MC/AUM % | MC/NAV % |
|---------------------------------------|------------|------------|----------------------|-------------|------------|------------|---------------|--------------|---------------|
| | | | | 2011E | 2012E | 2013E | | | |
| MCI Management SA | 8.3 | PLN | 119 | 6.8 | 4.5 | 3.6 | 0.3 | 62.6% | 95.6% |
| Alternative Asset Managers | | | | | | | | | |
| Blackstone Group LP | 18.74 | USD | 15,830 | 12.3 | 9.7 | 8.1 | 119 | 18.7% | 276.5% |
| Fortress Investment Group LLC | 5.57 | USD | 1,859 | 8.3 | 7.1 | 7.6 | 44 | 5.9% | 267.3% |
| KKR & Co LP | 17.84 | USD | 8,755 | 8.6 | 7.4 | 6.6 | 55 | 22.4% | 32.5% |
| Och-Ziff Capital Management Group LLC | 16.46 | USD | 4,323 | 11.6 | 10.0 | 8.7 | 26 | 23.4% | 1351.2% |
| Partners Group Holding AG | 172.2 | CHF | 3,552 | 16.0 | 13.2 | 11.1 | 9 | 53.6% | 774.8% |
| Median | | | | 11.6 | 9.7 | 8.1 | 44 | 22.4% | 276.5% |

Source: Bloomberg, DM BZ WBK estimates

Fig. 4. MCI: Comparable valuation

In PLN

| | P/E | | | AUM | NAV/MC | Average |
|---------|-------|-------|-------|-----|--------|-------------|
| | 2011E | 2012E | 2013E | | | |
| Average | 14.2 | 18.0 | 18.4 | 2.6 | 20.9 | |
| | | | 16.9 | | | 13.4 |

Source: DM BZ WBK estimates, fully diluted number of shares

Financial statements and forecasts

Fig. 5. MCI: Income statement forecasts
PLN in millions, unless otherwise stated

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|------------------------------------|-------------|-------------|--------------|-------------|--------------|--------------|
| AUM | 283 | 418 | 760 | 1180 | 1553 | 1775 |
| Net sales | 1.1 | 8.8 | 11.5 | 18.9 | 26.7 | 32.5 |
| COGS | 0.3 | 1.7 | 4.0 | 5.7 | 8.0 | 9.7 |
| Gross profit | 0.8 | 7.1 | 7.5 | 13.3 | 18.7 | 22.7 |
| SG&A | 7.1 | 5.4 | 7.3 | 11.3 | 14.8 | 17.0 |
| Other operating income, net | 37.8 | 48.3 | 163.5 | 88.3 | 129.3 | 156.5 |
| Operating profit | 31.6 | 50.0 | 163.7 | 90.3 | 133.1 | 162.2 |
| Financials, net | -6.4 | -7.5 | -7.9 | -9.8 | -10.1 | -10.4 |
| Profit before tax | 25.1 | 42.4 | 155.8 | 80.5 | 123.1 | 151.8 |
| Income tax | -4.3 | -2.5 | 0.9 | 0.4 | 0.7 | 1.1 |
| Net profit | 29.4 | 45.0 | 154.9 | 80.1 | 122.3 | 150.7 |
| from discontinued operations | 8.3 | 0.6 | -1.2 | 0.0 | 0.0 | 0.0 |
| Minority interest | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit for shareholders | 21.6 | 44.4 | 156.1 | 80.1 | 122.3 | 150.7 |
| AUM growth | | 48% | 82% | 55% | 32% | 14% |
| Sales growth | | 699% | 31% | 65% | 41% | 22% |
| Gross profit growth | | 744% | 7% | 76% | 41% | 22% |
| EBIT growth | | 58% | 228% | -45% | 47% | 22% |
| Net profit growth | | 106% | 252% | -49% | 53% | 23% |

Source: Company data, DM BZ WBK estimates

Fig. 6. MCI: Balance sheet forecasts

PLN in millions, unless otherwise stated

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Current assets | 18.1 | 57.0 | 30.2 | 27.5 | 20.6 | 14.9 |
| cash and equivalents | 8.1 | 1.1 | 19.6 | 16.9 | 10.0 | 4.2 |
| other short term investments | 0.3 | 53.6 | 2.1 | 2.1 | 2.1 | 2.1 |
| accounts receivable | 9.5 | 2.2 | 8.5 | 8.5 | 8.5 | 8.5 |
| inventories | 0.1 | - | - | - | - | - |
| prepaid expenses | - | - | - | - | - | - |
| Fixed assets | 281.9 | 276.7 | 604.8 | 693.1 | 822.4 | 978.8 |
| PPE | 1.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| long-term investments | 267.0 | 272.2 | 591.6 | 679.9 | 809.2 | 965.7 |
| intangibles | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| goodwill | 1.8 | - | - | - | - | - |
| long-term receivables | 9.5 | 0.3 | 7.1 | 7.1 | 7.1 | 7.1 |
| Long-term deferred charges | 1.9 | 3.6 | 5.6 | 5.6 | 5.6 | 5.6 |
| Total assets | 300.0 | 333.7 | 635.0 | 720.6 | 843.0 | 993.7 |
| Current liabilities | 69.4 | 14.8 | 18.7 | 18.7 | 18.7 | 18.7 |
| bank debt | 0.3 | 5.3 | 5.5 | 5.5 | 5.5 | 5.5 |
| accounts payable | 11.2 | 1.2 | 2.5 | 2.5 | 2.5 | 2.5 |
| other current liabilities | 57.9 | 7.2 | 10.1 | 10.1 | 10.1 | 10.1 |
| Deferred income | | 1.0 | 0.5 | 0.5 | 0.5 | 0.5 |
| Long-term liabilities | 22.7 | 52.9 | 118.1 | 118.1 | 118.1 | 118.1 |
| bank debt | 21.3 | 52.5 | 63.3 | 63.3 | 63.3 | 63.3 |
| other long-term liabilities | 1.3 | 0.4 | 38.6 | 38.6 | 38.6 | 38.6 |
| Provisions | 0.0 | - | 16.1 | 16.1 | 16.1 | 16.1 |
| Equity | 206.2 | 266.0 | 498.1 | 583.7 | 706.1 | 856.8 |
| share capital | 44.7 | 47.313 | 52.0 | 57.6 | 57.6 | 57.6 |
| capital reserves | 140.0 | 174.4 | 290.0 | 446.1 | 526.2 | 648.5 |
| net income | 21.6 | 44.4 | 156.1 | 80.1 | 122.3 | 150.7 |
| Minority Interest | 1.7 | - | 0.1 | 0.1 | 0.1 | 0.1 |
| Total liabilities and equity | 300.0 | 333.7 | 635.0 | 720.6 | 843.0 | 993.7 |
| Net debt | 71.4 | 63.9 | 59.4 | 62.1 | 69.0 | 74.7 |

Source: Company data, DM BZ WBK estimates

Fig. 7. MCI: Cash flow statement forecasts

PLN in millions, unless otherwise stated

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|----------------|----------------|----------------|---------------|---------------|---------------|
| Cash flow from operations | 74.2 | (111.2) | 57.5 | (10.2) | (10.8) | (11.5) |
| Net profit | 21.6 | 44.4 | 156.1 | 80.1 | 122.3 | 150.7 |
| Provisions | - | 1.0 | 15.6 | - | - | - |
| Depreciation and amortization | - | - | - | - | - | - |
| Changes in WC, o/w | 9.1 | (2.6) | (4.9) | - | - | - |
| inventories | (0.1) | 0.1 | - | - | - | - |
| receivables | 0.3 | 7.3 | (6.2) | - | - | - |
| payables | 9.0 | (10.0) | 1.3 | - | - | - |
| Return on investments | (31.6) | (50.0) | (163.7) | (90.3) | (133.1) | (162.2) |
| Other, net | 75.0 | (104.0) | 54.4 | - | - | - |
| Cash flow from investment | (116.3) | 54.3 | (126.1) | 2.0 | 3.8 | 5.8 |
| Additions to PPE and intangibles | (0.6) | 1.1 | 0.2 | - | - | - |
| Change in long-term investments | (40.0) | 44.8 | (155.7) | 2.0 | 3.8 | 5.8 |
| Other, net | (75.7) | 8.4 | 29.4 | - | - | - |
| Cash flow from financing | 43.0 | 49.8 | 87.1 | 5.6 | 0.0 | (0.0) |
| Change in long-term borrowing | 21.3 | 31.1 | 10.9 | - | - | - |
| Change in short-term borrowing | (10.2) | 5.0 | 0.2 | - | - | - |
| Change in equity and profit distribution | 31.5 | 15.4 | 76.0 | 5.6 | 0.0 | (0.0) |
| Dividends (paid) | - | - | - | - | - | - |
| Other, net | 0.3 | (1.7) | 0.1 | - | - | - |
| Net change in cash and equivalents | 0.8 | (7.0) | 18.5 | (2.6) | (7.0) | (5.7) |
| Beginning cash and equivalents | 7.3 | 8.1 | 1.1 | 19.6 | 16.9 | 10.0 |
| Ending cash and equivalents | 8.1 | 1.1 | 19.6 | 16.9 | 10.0 | 4.2 |

Source: Company data, DM BZ WBK estimates

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In preparing this document DM BZ WBK S.A. made use of the following valuation methods:

- 1) discounted cash flows ("DCF")
- 2) comparative.

The DCF valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

Explanations of special terminology used in the recommendation:

EBIT – earnings before interest and tax
 EBITDA – earnings before interest, taxes, depreciation, and amortization
 P/E – price-earnings ratio
 EV – enterprise value (market capitalisation plus net debt)
 PEG - P/E to growth ratio
 EPS - earnings per share
 CPI – consumer price index
 WACC - weighted average cost of capital
 CAGR – cumulative average annual growth
 P/CE – price to cash earnings (net profit plus depreciation and amortisation) ratio
 NOPAT – net operational profit after taxation
 FCF - free cash flows
 BV – book value
 ROE – return on equity
 P/BV – price-book value

Recommendation definitions:

Buy - indicates a stock's total return to exceed more than 15% over the next twelve months.

Hold - indicates a stock's total return to be in range of 0%-15% over the next twelve months.

Sell - indicates a stock's total return to be less than 0% over the next twelve months.

Over the last three months Dom Maklerski BZ WBK S.A. issued 6 Buy recommendations, 3 Hold recommendations and 0 Sell recommendations.

The Issuer does not hold shares of DM BZ WBK S.A.

Neither members of the Issuer's authorities nor their relatives are members of the management board or supervisory board of DM BZ WBK S.A.

No person engaged in preparing the report is a relative for the members of the Issuer's authorities and none of those persons or their relatives are party to any agreement with the Issuer, which would be concluded on different basis than agreements between Issuer and consumers.

Among those, who prepared this document, as well as among those who didn't prepare it but had or might have had the access to it, there might be such individuals who hold shares of the Issuer in the amount which does not exceed 5% of the share capital or financial instruments whose value is connected with the value of the financial instruments issued by the Issuer.

During the last 12 months DM BZ WBK S.A. has been a party to agreements relating to the offering of financial instruments issued by Issuer and connected with the price of financial instruments issued by Issuer.

During the last 12 months DM BZ WBK S.A. was a member of syndicate for financial instruments issued by Issuer.

DM BZ WBK S.A. did not buy or sell any financial instruments issued by the Issuer on its own account, in order to realize investment subissue or service agreements.

DM BZ WBK S.A. does not act as market maker, on principles specified in the Regulations of the Warsaw Stock Exchange, for the shares of Issuer.

DM BZ WBK S.A. does not act as issuer's market maker, on principles specified in the Regulations of the Warsaw Stock Exchange, for the shares of Issuer.

During the last 12 months DM BZ WBK S.A. has received remuneration for providing services for the Issuer. These services covered public offering of shares issued by Issuer and acting as member of syndicate.

During the last 12 months Bank Zachodni WBK S.A. which is connected with Dom Maklerski BZ WBK S.A. has not received any remuneration for providing investment banking services for the Issuer. In the future Bank Zachodni WBK S.A. is going to receive remuneration.

DM BZ WBK S.A. does not hold shares of the Issuer or any financial instruments of the Issuer being the subject of this document, exceeding 5% of the share capital.

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The date on the first page of this report is the date of preparation and publication of the document.

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