Spotlight: MCI Capital - A 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 firm in CEE with total of approx. PLN 2.7 bn (EUR 636 mn) gross AUM, mainly in its two key funds, MCI.EuroVentures 1.0 and MCI.TechVentures 1.0, as at Q3 23. The regional focus is clearly on CEE and Poland, but SEE and the DACH region are also interesting markets. Thanks to equity capital of PLN 2.1 bn, the company is not dependent on regular cyclical fundraising. The group targets companies with promising business models, such as the provision of digital infrastructure to support the transition to a more data-driven economy. This includes investments in companies in the areas of e-commerce, fintech, insurtech, payment processing, medtech, edtech and software as a service (SaaS). This is reflected in the strong track record with +100 completed investments, an IRR of 28% and a 2.6x multiple on invested capital on exits since 2012, with an average holding period of only 3.5 years for the buyout and expansion portfolio. The investment focus is on participations that generate positive EBITDA and have an equity ticket size of around EUR 25-100 mn. MCI trades at a discount of 36% to its NAV compared to comparable firms in Europe. The MCI Group had a strong liquidity position of PLN 780 mn as of H1 23.

Last close price (15.12.2023)	25.50	Currency	PLN
Year high/low	15.45/26.30	Index	sWIG80
Shares outstanding eoy (mn)	52	Primary Exchange	GPW
Market capitalisation (in EUR mn)	310	ISIN code	PLMCIMG00012
Free float (%)	19	Bloomberg	MCI.PW
Free float (in EUR mn)	60	Reuters	MCI.WA
PLN/EUR	4.32	Website	www.mci.pl

Source: Bloomberg, RBI/Raiffeisen Research

Key financials

Income statement (PLN mn)	**2021**	**2022**	**LTM 23**	**Per share data (PLN, 12m)**	**2021**	**2022**	**LTM 23**
Gain on certificates	374	158	317	EPS	9.3	2.7	5.2
Other gains/losses	34	-2	19	Book value	35.2	36.5	40.1
Investment profit	408	157	335	Dividend	0.70	0.70	0.00
PBT	347	113	276	Payout ratio	7.8%	25.6%	0.0%
Net profit a.m.	466	143	273	Dividend, % of Equity	2.0%	1.9%	0%**

Balance sheet (PLN mn)	**2021**	**2022**	**Q3 23**	**Valuation (x, 12m)**	**2021**	**2022**	**LTM 23**
Gross AUM*	2,708	2,654	2,747	PE	2.3	5.9	5.0
Investments	2,010	2,155	2,325	Price book value	0.60	0.44	0.65
Shareholders' equity	1,808	1,916	2,105	Dividend yield	3.4%	4.4%	0%**
Net int. bearing debt	202	252	305	EV/EBIT	3.6	7.7	5.3

**Gross AUM defined as total AUM (inc, all funds) + financial commitments; **Buyback in amount of PLN 55.4 mn, i.e. 4.7% of share capital (for details please see p.14)*

Source: MCI Capital, Bloomberg

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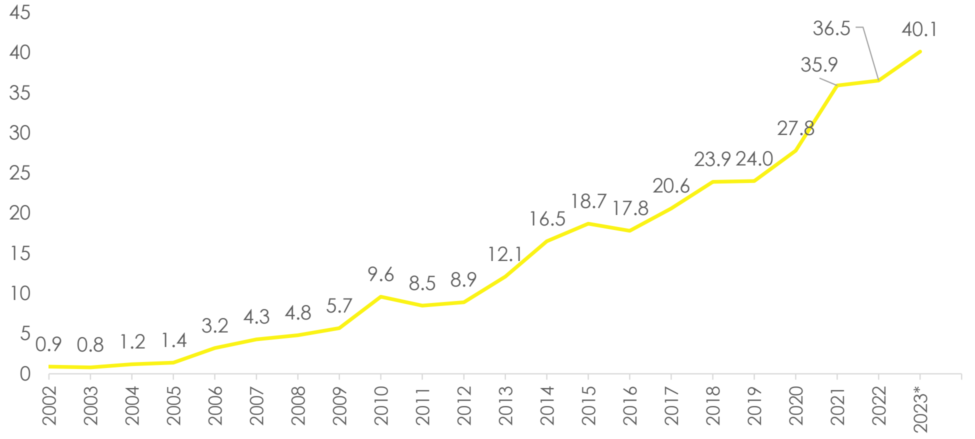
Company profile

MCI: a leading tech/digital investment company in CEE

MCI is a private equity firm listed on the Warsaw Stock Exchange with a clear focus on digital business models and digitalisation enablers, such as telcos, data collectors, processing centres and logistics infrastructure for e-commerce. With total assets under management (AUM) of around EUR 565 mn (as at September 30, 2023), MCI is one of the leading tech/digital investment company in the CEE region. MCI was founded in 1999 and can leverage its long-standing expertise in the technology and digitalisation sectors, which is reflected in an impressive CoC (cash on cash return) of 2.6x and a realised internal rate of return (IRR) of 28% since 2012 for the buyout and expansion strategy (both past exits and returns to be realised in the future). MCI has successfully executed IPOs (e.g. Answear) and public-to-private transactions (e.g. IAI, ABC Data) and has achieved impressive growth over the last years, with NAV growing at a compound annual growth rate (CAGR) of 20% since 2002. MCI currently has a market capitalisation of approximately PLN 1,338 mn (EUR 310 mn) and the free float is 19%. The company is led by CEO Tomasz Czechowicz, a well-known Polish entrepreneur and PE investor.

Historical NAV/S development (2002-2023*)



*Note: In PLN, *Q3 2023*

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 such as 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 size of the equity tickets for the expansion or buyout of a single project is usually between EUR 25 and 100 mn and MCI acts as lead investor or participates in syndicates with other PE firms and, according to the company, aims for up to three deals per year. Target KPIs for investments are an EV of EUR 50-250 mn, a positive EBITDA of roughly EUR 3-30 mn and an organic growth rate of approx. 20-50% p.a. The companies should hold a top 3 market position and have the potential to become market leader through organic or inorganic growth. In the past, MCI has also invested in private debt and venture capital, but is not making any new investments in these areas and is focussing on divestments.

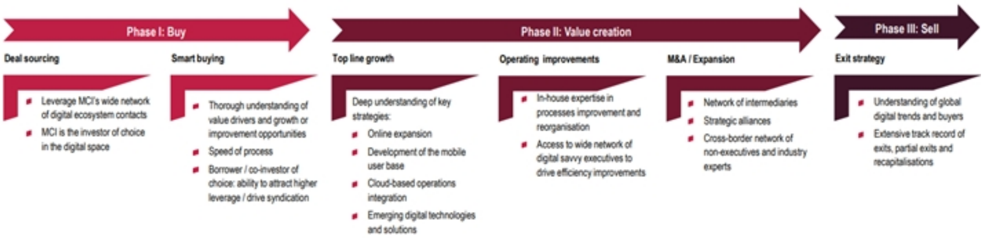
Focus on CEE and selected Western European investments

Source: MCI Capital

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

One of MCI's most important features is its concept of comprehensive support for the management teams of its portfolio companies. MCI acts as an industry partner based on its internal 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 PLN 2.0 bn for new investments

The current economic weakness and geopolitical situation in the CEE region offers an opportunity for new investments at attractive valuations. For this reason, MCI Capital is willing to invest in buyouts and buy from venture capital funds, private equity companies and strategic sponsors in public-to-private and public-to-private equity transactions. In the period 2023-2025, the company plans to allocate between PLN 1.5 bn and PLN 2.0 bn in c. 10 investments, on average around PLN 150-200 mm per investment. With this investment strategy in place since 2017, MCI has achieved a return of 26% per year on the active portfolio in the past. In addition, MCI is currently also building a pipeline of commitment financing (worth approx. PLN 500 mn as at September 30, 2023) to be able to flexibly increase the dynamics of new investments.

Climate-tech as future economic growth engines

The term climate-tech refers to technologies that reduce the negative impact of greenhouse gases, waste and pollution while promoting sustainable development and economic growth. This includes measures such as extracting existing carbon from the atmosphere, reducing future emissions or improving our ability to withstand the effects of climate change. According to Bain, Dealogic and Pitchbook, private equity and venture capital funds have made over 2,000 investments in climate and related technologies globally since 2017 and could drive economic growth over the next 25 years.

In addition to the historical focus of its investments in e-commerce, fintech, SaaS and digital infrastructure, MCI Group is also actively developing the climate-tech/deeptech and digital entertainment sectors, where it aims to be an active investor in these fast-growing industries. It is prepared to invest up to 20% of available funds in climate-tech. Moreover, MCI already has a circular economy company in its portfolio - AsGoodAsNew (AGAN), which is part of the MCI.TV fund. The company sells new and refurbished electronic devices. AGAN buys the devices from B2C and B2B customers, refurbishes them in its facilities in Frankfurt (Oder), Germany, and then sells them to its customers. The selling price for the electronic devices depends on the degree of refurbishment.

SWOT analysis

Strengths/Opportunities

- Leading listed PE company with a focus 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 the fund having to incur significant additional expenses
- Well prepared to make new investments at the current attractive market timing thanks to a very high liquidity position (H1 23)
- Opportunity to gain exposure to attractive PE asset with higher liquidity, no minimum investment amount and no capital calls, unlike traditional direct investments in PE

Weaknesses/Threats

- PE companies face exit risks in terms of timing and pricing
- A high proportion of liquid assets (i.e. cash) may result in cash drag and have a negative impact on net asset value IRR
- Weakening macro momentum weighing on business and consumer confidence in the short- to mid-term
- Not all published financial statements are available in English
- Low stock liquidity based on average trading volume due to a relatively limited free float of around 19%
- Portfolio valuation mostly done internally (but audited by EY and verified by Depositary Bank)

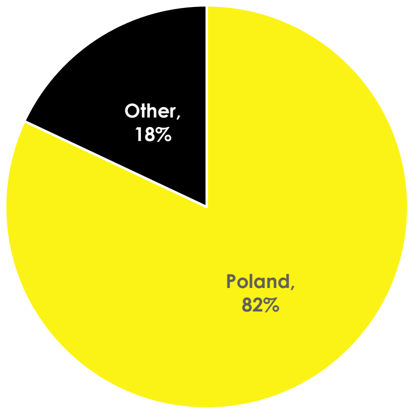
Key funds

MCI holds its investments through investment certificates in funds managed by the company. The investment certificates are held by MCI as well as external investors. The focus of the MCI portfolio is on the MCI.EuroVentures 1.0 fund, which accounts for 92% of the total investment certificates (as of Q3 23). MCI.TechVentures 1.0 accounts for 7% of the total investment certificates and is currently in the divestment phase. The remaining 1% is related to the InternetVentures fund, which the company originally planned to fully liquidate by the end of 2023, but has recently informed us that the liquidation process will take a little longer and now expects it to be completed by the end of Q1 24. MCI owns 99% of the total outstanding certificates of MCI.EuroVentures 1.0 and 48% of MCI.TechVentures 1.0. The company's plans envisage that MCI.TechVentures 1.0 will be gradually sold by 2024 (or by 2026 in the event of an extension) and that an exit from the investments is therefore planned in the coming years. The investment certificates of the funds are recognised at fair value. Further information on the valuation of investments can be found in the section “Companies valued internally but audited semi-annually.”

MCI.EuroVentures 1.0

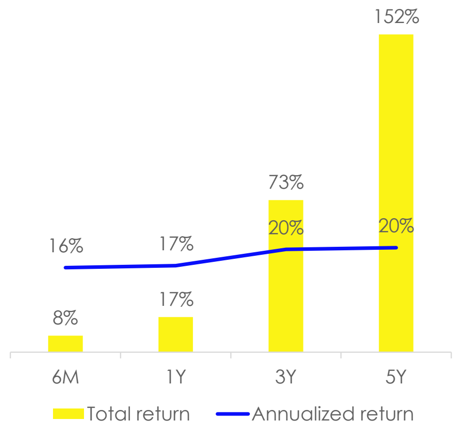
MCI.EuroVentures 1.0 is a fund that focuses on acquisitions of medium-sized companies that are leaders in the digital market and digital ecosystem. These primarily include eSky, IAI, Netrisk Group and Pigu Hobby Hall Group. MCI holds a 99% stake in the fund, which includes investments in areas such as software as a service, e-commerce, fintech/ insurtech companies and other digital companies with EBITDA in the target range of EUR 3-30 mn. With a very strong return of 152% (20% p.a.) over the last five years, the fund has a performance history that is broadly in line with the recent past (3-year return 73%, 1-year return 17%; Series A). The 10-year IRR is 23%. The most recent addition to the fund are Focus Telecom, a leading player in the Polish communications services sector and Webcon, a leading Polish producer of "low code Business Process Automation" software.

Geographical breakdown (H1 23)



Source: MCI Capital

Rates of return (%, H1 23)*



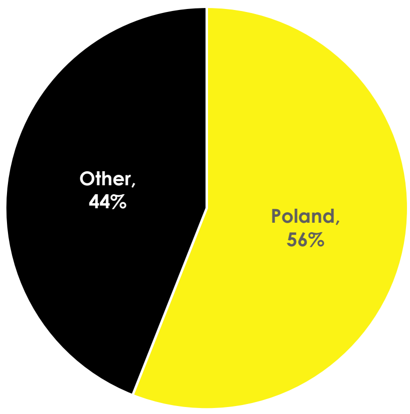
**certificate series A*

Source: MCI Capital

MCI.TechVentures 1.0

The strategy of MCI.TechVentures 1.0 is more strongly focussed on venture capital. It also includes a higher proportion of companies outside Poland. The fund targets a cash-on-cash return of 3-5x and, similar to MCI.EuroVentures 1.0, focuses on e-commerce, fintech, software as a service and AI. As at September 30, 2023, MCI holds a 48% stake in TechVentures, with the remaining 52% held by external investors. Although the operating performance of the investments remained resilient, the book values of TechVentures investments (based on comparables) were directly impacted by the market sell-off and the decline in valuations of global e-commerce and tech companies. This is reflected in the performance of the TechVenture fund, which returned -43% (or -11% p.a.) over the last 5 years, -31% (-7% p.a.) over the last 3 years and -8% (based on Series O) over the last 12 months. As at June 30, 2023, the IRR of the fund over the past ten years was 3%. MCI.TechVentures 1.0 is to be sold gradually until 2024 (or until 2026 if extended), meaning that exits from investments are to be expected in the coming years (i.e. distribution phase).

Geographical breakdown (H1 23)



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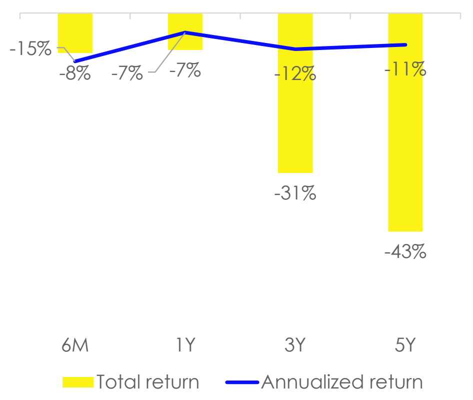
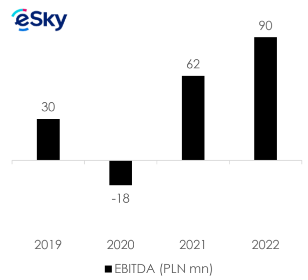


** certificate series O*
Source: MCI Capital

Selected investments

eSky (MCI stake: 57%)

Financial highlights



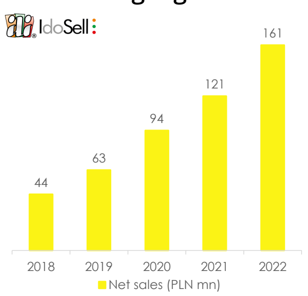
Source: Company filings

eSky is the leading Polish online travel agency (OTA) for air travel and a global challenger in the TravelTech segment, also in the area of complementary services such as hotel bookings and insurance. The company's offer includes travel services for private individuals, focusing on the sale of airline tickets, both for traditional and low-cost airlines, hotel bookings, car hire and other packages. The 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). It is recording very dynamic growth in sales and EBITDA. The total value of transactions reached PLN 2.9 bn in FY 2022 (PLN 1.6 bn in 2021). In the LATAM region, the company operates under the eDestinos brand. eSky focuses on developing its package offering and expanding into new markets in CEE. The company has been part of the MCI.EuroVentures 1.0 portfolio since 2022, and this acquisition was one of the only three transactions in the CEE mid-market Digital segment in 2022. The exit is currently planned for 2026.

IAI (MCI stake: 51%)

Financial highlights



Source: Company filings

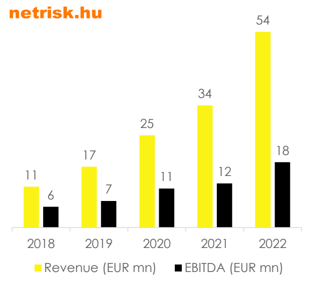
IAI (platform brand Idosell) is Poland's largest e-commerce platform for the creation of online stores, which is operated according to a SaaS model. It serves almost 7,000 stores in Poland and through the acquisition of Shoprenter (in July 2021), IAI has started to expand internationally and has also become the market leader in Hungary. The company offers a wide range of services for creating a functional digital shop, from developing an integration or marketing strategy to modifying the available website design template and training employees.

IAI's gross merchandise value (GMV) grew at a double-digit rate in 2022, outperforming the average growth rate of the market. Furthermore, according to MCI, the company reported double-digit growth in revenue and EBITDA. The successful re-pricing of IAI offerings and the expansion of value-added services will enable further improvement in monetisation and revenue growth. Management is focussing on the development of IAI towards 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 part of the development agenda. The company is part of MCI.EuroVentures 1.0 and the exit is planned for 2024.

Netrisk Group (MCI stake: 15%)

Netrisk Group is a leading Central European online insurance broker, operating online platforms across Central and Eastern Europe for the comparison and distribution of motor and other insurance policies as well as certain non-insurance products, including retail loans, energy and telecommunication contracts. The company is the market leader in Austria, the Czech Republic, Hungary, Lithuania, Poland and Slovakia. The acquisitions of the Lithuanian Edrauda and the Austrian platform Durchblicker.at were completed in 2021 and Q1 2022, respectively.

Financial highlights



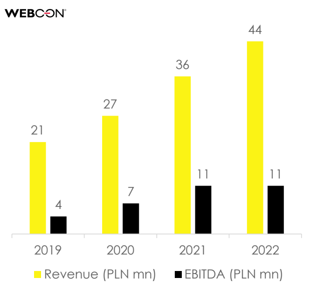
Source: Company filings

In September 2023, the Netrisk Group completed the merger with the online comparison sites of the Bauer Media Group, creating a major player in the European online insurance market with access to 80 mn consumers in the core markets. The merged company will now focus even more on effective organic growth through the centralisation of functions and synergies between the recently acquired and merged companies. Netrisk is part of the MCI.EuroVentures 1.0 fund and MCI completed a partial exit in January 2020, with the exit of the remaining stake planned by 2025.

Webcon (MCI stake: 65%)

On November 27, 2023, MCI announced that it has acquired Webcon, a leading Polish producer of "low code Business Process Automation" software. Their solutions allow businesses to easily automate their workflows without the need for coding. Webcon also offers a variety of other products and services, such as document management, forms management, collaboration tools, and reporting and analytics. It has a wide range of customers, including large enterprises, small and medium-sized businesses, government agencies, and non-profit organizations. Additionally, the company has been increasing its share of sales on foreign markets. MCI plans to exit this investment in 2028.

Financial highlights

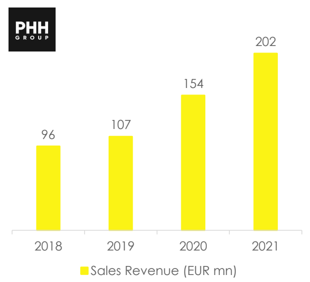


Source: Company filings

PHH Group (MCI stake: 23%)

Pigu Hobby Hall Group (PHH) is an e-commerce platform focussing mainly on the Baltic states, where it is the leader. Over 2,000 retailers are represented on the platform. The investment case is based on the conviction that the Baltic States are less saturated in terms of online shopping compared to Western Europe and that PHH can achieve strong growth momentum with increasing market penetration. PHH recorded a sales CAGR of 28% since 2018.

Financial highlights



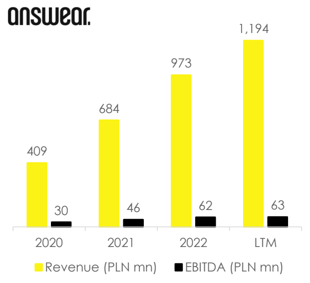
Source: Rekvizitai.lt; company filings

Key initiatives currently include further improving the 1P offering and driving 3P growth through many additional merchants from the Baltics/CEE/Finland, as well as increased efforts to bring international merchants on board. MCI divested part of its shares in 2021 when Pigu.lt merged with Hobby Hall Group. The company is part of the MCI.EuroVentures 1.0 portfolio with the exit is planned for 2027. In September 2023, the European Bank for Reconstruction and Development (EBRD) and other shareholders, including majority shareholder MidEuropa, invested in the company within a financing round totaling EUR 20 mn. MCI is participating with an investment of EUR 4.3 mn.

Answear (MCI stake: 24%)

Answear is one of the fastest growing fashion e-commerce platforms in Europe and one of the largest CEE multi-brand apparel retailers. Its offering includes more than 500 global brands and 100,000 products; the company is also launching its own label. Answear has experienced a staggering sales growth of 75% since YE 21, well above the growth rates of its main competitors such as Zalando, Boozt or ASOS. The company also achieved positive EBITDA in 2019 and 2020 before going public in January 2021 with a partial exit of MCI.

Financial higlights



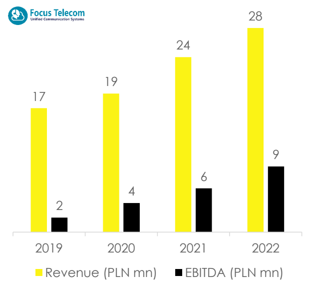
Source: Company filings

Answear is actively developing its product range in new categories such as premium, sport/outdoor and home/lifestyle. In addition, more intensive marketing activities are aimed at high-reach media campaigns in 11 Answear markets. The exit is currently planned for 2025. The company is part of the MCI.TV and MCI.EV funds. Answear is also included in the coverage universe of RBI Institutional Equity Research.

Focus Telecom (MCI stake: 80%)

Focus Telecom Polska is the largest provider of cloud contact center solutions, customer experience management and business communications services in Poland. As the largest provider of such services in the country, the company has positioned itself at the forefront of innovative solutions for business communications. With its focus on Software-as-a-Service (SaaS) models, Focus Telecom fits perfectly with MCI's investment criteria. For this reason, MCI invested PLN 80 mn in December 2023 for 80% stake in the company (MCI was previously a minority shareholder). The exit is envisaged in 2028.

Financial highlights

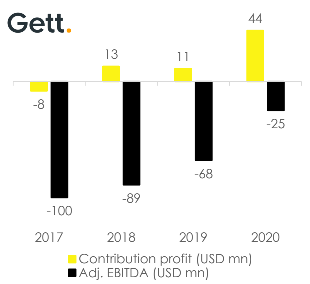


Source: Company filings

Gett (MCI stake: 15%)

Gett is a company with a dominant market position in Israel and is a leading provider of taxi hailing and B2B solutions in London. The company was founded in 2010 and is headquartered in London. Since then, it has raised more than USD 750 mn in capital from various private equity companies and approximately EUR 300 mn from the VW Group. In March 2022, Gett shelved its plans to go public via a SPAC vehicle and announced its withdrawal from Russia, where less than a fifth of gross profit was generated in FY 21.

Financial highlights



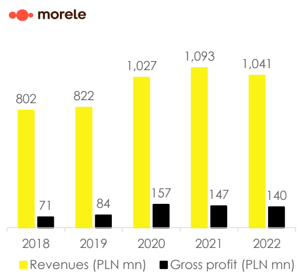
Source: Sec.gov

The company is planning new partnerships with taxi fleets and logistics companies. It also plans to introduce new fare plans and offers to increase the number of loyal drivers. In January 2023, the largest shareholder, Swedish investment fund VNV Global, announced that Gett is debt-free and EBITDA-positive. The company is an investment of MCI.EuroVentures 1.0 and MCI.TechVentures 1.0, whose exit is planned for 2025 as at Q3 23.

Morele (MCI stake: 52%)

Morele.net is a leading multi-category e-commerce platform in Poland, combining the best of first-party and third-party models. The company was established in 2004 and is successfully managed by its two founders. The company is expanding its product portfolio and augmenting product categories. It is also aggregating digital brands and distributing them through own ecommerce platform and various marketplaces in CEE and Western Europe. 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 management is working on adapting the company to the new market environment in terms of its cost base and sales channels. The company is part of the MCI.TechVentures 1.0 fund and the exit is planned for 2026.

Companies valued internally but audited semi-annually

Investments are valued internally by MCI in accordance with best practise and generally accepted accounting and valuation methods for public and private equity funds. The valuations are audited semi-annually by EY and verified by the Depositary Bank. After the acquisition, the investment is initially recognised at cost for a period of one to two years. In subsequent periods, MCI uses valuation methods based on multiples to adjust the value of its investments. The multiples are based on companies that are comparable in terms of their business model, and companies from different countries (including the USA, etc.) are considered for inclusion in the respective peer group. In general, MCI applies a liquidity discount (approx. 15%) to its valuations and in certain cases additional discounts are applied due to specific (country/regional/internal) risk factors affecting the valuation. For the companies in the MCI.EuroVentures 1.0 fund, most of which are profitable on an Earnings before interest, taxes, depreciation and amortisation (EBITDA) basis, an EV/EBITDA multiple (enterprise value to EBITDA) is applied. As many of the MCI.TechVentures 1.0 investments are not yet generating fully developed EBITDA over the last 12 months, as the fund is more focused on earlier stage investments, predominantly EV/sales and EV/gross margin multiples are the predominant valuation (however, for some of the MCI.TV companies the valuation methodology may be changed to EV/EBITDA multiples in the future as they are expected to be transactional on an EBITDA basis on exit). MCI's exits most accurately reflect the prudence of its valuations, as the realised exits (details are shown in the table below) were predominantly above the last book valuations. MCI.TV's NAV is around 14% of MCI Capital's total NAV.

Track record and planned exits

In terms of exits, the MCI Group has a strong track record. Since 2012, the company has completed 12 major exits (excluding Tatilbudur, which was a smaller transaction) from its buyout and expansion portfolio – most of these companies were under MCI's control or held as joint ventures. The median exit value was EUR 36 mn, while the total volume over the period equalled to almost EUR 600 mn. It is worth noting that in the past, the multiples realised on exits from investments were always higher than the internal investment valuations. The current portfolio includes a mix of companies with a healthy financial position that does not require any significant additional expenditure by the fund.

We would like to highlight that "Gross IRR" is defined as gross internal rate of return before deduction of any management fees which may be substantial in aggregate.

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	7.9	59	5.0x	41%
MALL.CZ	CZ	JV	Sep-10	Oct-12	2.1	35	4.1x	174%
WP	PL	JV	Jan-14	Dec-16	2.9	35	2.7x	54%
NETIA	PL	JV	May-14	Apr-15	0.9	37	1.1x	18%
life brain	AT	JV	Jun-15	May-18	2.9	32	1.7x	21%
iZettle	SWE	Minority	Oct-15	Sep-18	2.9	36	3.7x	62%
dotpay / eCard	PL	Control	Jul-15	Jan-19	3.5	57	3.1x	38%
ABCDATA	PL	Control	Nov-07	Jun-19	11.6	59	2.2x	12%
netrisk.hu	HU	Control	Dec-17	Jan-20	2.1	70	4.1x	104%
INDEX GRUP	TR	Minority	May-13	Apr-20	6.9	29	1.3x	7%
atman	PL	Control	Mar-16	Dec-20	4.8	111	2.8x	30%
pigu.lt	Baltics	Control	Jul-15	Mar-21	5.7	31	2.8x	20%
Total realized					**3.2***	**590**	**2.6x**	**28%**

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

Source: MCI Capital

The realised return of the selected historical exits with IRR of 28% and MoIC of 2.6x in the table above is slightly higher than the benchmark that private equity firms are currently aiming for. According to a survey by Paul Gompers et al. (Private Equity and Covid, 9/2020), the median PE fund targets an IRR of 25% and a MoIC (Multiple on Invested Capital) of 2.5x. Furthermore, according to eFront report, a holding period of less than five years results in a gross multiple of less than two times the invested capital, while this increases and stabilises at more than 2.5x after five years, reaching a maximum of 2.6x for a holding period of nine to ten years. In this regard, MCI's median holding period of 3.2 years stands comparably in line with these findings.

Portfolio with exit value between PLN 2.5 and 3.0 bn

MCI has an exit pipeline until 2028 with an estimated exit value of between PLN 2.5 and PLN 3.0 bn, of which the largest part (c. EUR 580 mn) will be reinvested in the funds through two to three investments per year with a ticket size of EUR 25-100 mn. As private equity companies face exit risks in terms of timing and pricing, MCI regularly reviews its options and adjusts its exit plans accordingly. For this reason, we would like to point out that the planned exit pipeline should be perceived purely as indicative and is likely to change in the coming months. This dynamic structure of envisaged exits can be observed by comparing the table below with the ones in previous versions of Spotlight reports on MCI Capital. In 2023 (until the date of this report), MCI completed its exit from Gamedesire and received payment related to its exit from RemoteMyApp/Vortex (2nd tranche - escrow payment) as well as received dividends from Linxdatacenter and Focus Telecom investments. In addition, MCI currently has approximately ten active transactions in the pipeline and is targeting the completion of two to four transactions in the next six months.

Indicative exit plan*

2024	2025	2026	2027	2028
IAI [PE recap/strategist]	netrisk group [PE recap/strategist]	eSky GROUP [PE recap/strategist]	PHH GROUP [IPO/strategist]	WEBCON [PE recap/strategist]
linxdatacenter [dividend]	answear.com [post-IPO ABB]	morele [IPO/strategist]	KRIYA FORMERLY MARKETFINANCE [IPO/strategist/recap]	Focus Telecom [PE recap/strategist]
AZIMO [II tranche]	Gett BUSINESS SOLUTIONS [PE recap/strategist]		papayaglobal [IPO/strategist]	
	travelataru [trade sale]		asgoodasnew [PE/IPO]	
	gamedesire [earnout]			

**as at December 15, 2023*
Source: MCI Capital

Market outlook

Supported by new technologies, industries and business models are constantly changing and replacing traditional businesses. In the face of accelerating disruption, responsible managers are forced to respond with an appropriate digital solution to remain competitive. Truly transformed companies have a digital infrastructure, digital processes and digital customers. The digital transformation has taken place across all industries in recent years and shows how society and the economy can be expected to develop in the future. Private equity helps to overcome this first hurdle when it comes to financing issues in the initial phase.

Although the valuations of e-commerce and tech companies have fallen significantly in 2022 due to a mixture of weaker macroeconomic conditions, rising interest rates and geopolitical tensions, fundamentally strong companies with solid business operations offer potential as soon as the macroeconomic situation and the situation on the capital markets normalise. This offers PE specialists the opportunity to make new investments at attractive prices with the aim of achieving high results in the coming years.

CEE market attractive for private equity firms

Compared to the EU-27 and Euro area average, the GDP growth rates observed in the CEE were historically higher. According to a recent analysis by RBI Research, the economy in the Euro area and CEE/SEE is expected to recover in 2024, driven by a rebound in consumer demand amid falling inflation, interest rates and high wages. Investment growth will continue to be supported by EU funds, while private activity in some countries should also surprise positively. In addition, inflation is expected to continue to fall in 2024, but could lose pace in the coming months.

Real GDP (% yoy)

Country	2021	2022	2023e	2024f	2025f
Euro area	5.6	3.4	0.5	0.8	1.5
Austria	4.2	4.8	0.1	0.6	1.4
Bulgaria	7.6	3.4	1.7	2.5	3.5
Croatia	13.8	6.3	2.1	2.5	2.6
Czech Republic	3.5	2.4	0.0	2.1	3.0
Hungary	7.1	4.6	-0.3	3.0	4.0
Poland	6.9	5.1	0.5	2.7	3.5
Romania	5.7	4.7	1.5	2.8	3.5
Slovakia	4.9	1.7	1.3	1.5	2.1
Ukraine	3.4	-29.1	5.0	5.4	6.5

Source: Refinitiv, Focus Economics, RBI/Raiffeisen Research

Our view is that the magnitude of the rebound will largely depend on the reaction of the labour market. RBI Research's 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	6.5	6.8	6.8
Austria	6.2	4.8	5.1	5.1	4.9
Bulgaria	5.3	4.3	4.3	4.2	4.2
Croatia	7.6	6.9	6.7	6.7	6.5
Czech Republic	21.7	21.8	23.1	22.9	22.3
Hungary	4.1	4.0	3.9	3.8	3.7
Poland	6.0	5.4	5.1	5.4	5.5
Romania	5.6	5.6	5.5	5.4	5.1
Slovakia	6.9	6.1	5.8	5.5	5.4
Ukraine	9.1	18.0	15.0	12.0	9.0

Source: Refinitiv, Focus Economics, RBI/Raiffeisen Research

In CEE countries, government measures continue to cloud the picture and contribute to uncertainty and/or volatility. The consumer price index (CPI) is expected to remain above the central bank's targets in most countries, with the sharpest decline forecast in the Czech Republic. In addition, key interest rate cuts are expected in most CEE countries in 2024 as global central banks shift to a policy of keeping rates "high-for-longer". However, the lagged effects of the rapid and sizeable hiking cycles will continue to be felt.

CPI inflation (avg, % yoy)

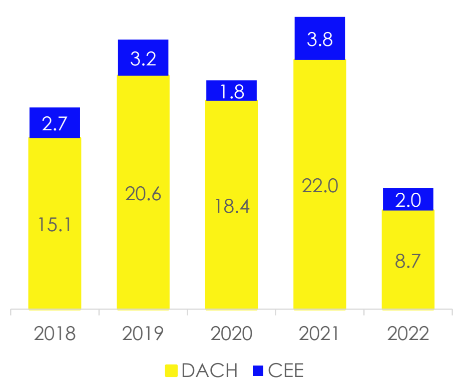
Country	2021	2022	2023e	2024f	2025f
Euro area	2.6	8.4	5.6	3.1	2.3
Austria	2.8	8.6	7.6	3.8	2.8
Bulgaria	3.3	15.3	9.6	3.9	3.2
Croatia	2.6	10.8	8.0	3.3	2.6
Czech Republic	3.8	15.1	11.0	3.1	2.2
Hungary	5.1	14.5	17.7	5.8	3.2
Poland	5.1	14.3	11.7	5.3	2.4
Romania	5.1	13.8	10.5	6.8	4.0
Slovakia	2.8	12.1	11.6	5.2	2.3
Ukraine	9.3	20.0	13.6	7.9	8.5

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 number of investments and value creation strategies were identified that aim to maximise returns based on the attractiveness of the CEE region. In particular, emerging and mature companies in the digital industry that are developing rapidly, where MCI is positioned as a leading private equity company with a strong track record of acquisitions and disposals. The mix of available human resources, the need for technical/digital developments, numerous government support programmes and a dynamic local environment leads to technological investment and innovation. Another issue that emphasises the attractiveness of the CEE region for investors is the implementation of ESG related topics in the strategic orientation of companies.

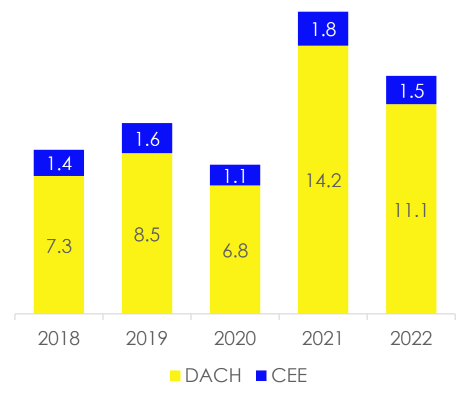
According to the Private equity activity 2022 report, the gap between allocated investments in the DACH and CEE regions remains quite large. Nevertheless, the CEE region represents an attractive opportunity for PE funds as they can benefit from relatively easy access to a large consumer market, specialised labour and significantly lower entry costs, but this is partly offset by the perception of higher risks and instability. After a decline in investment value in 2020 due to Covid-19, the total value of investments recovered in 2021, reaching an all-time high in both regions. In 2022, however, the high level of uncertainty in the global investment environment and increased volatility in the capital markets also impacted PE investments and the total value of funds raised in the DACH and CEE regions.

PE investments by region (EUR bn)



Source: Invest Europe

PE funds raised by region (EUR bn)



Source: Invest Europe

MCI is the only listed and the largest digital PE player

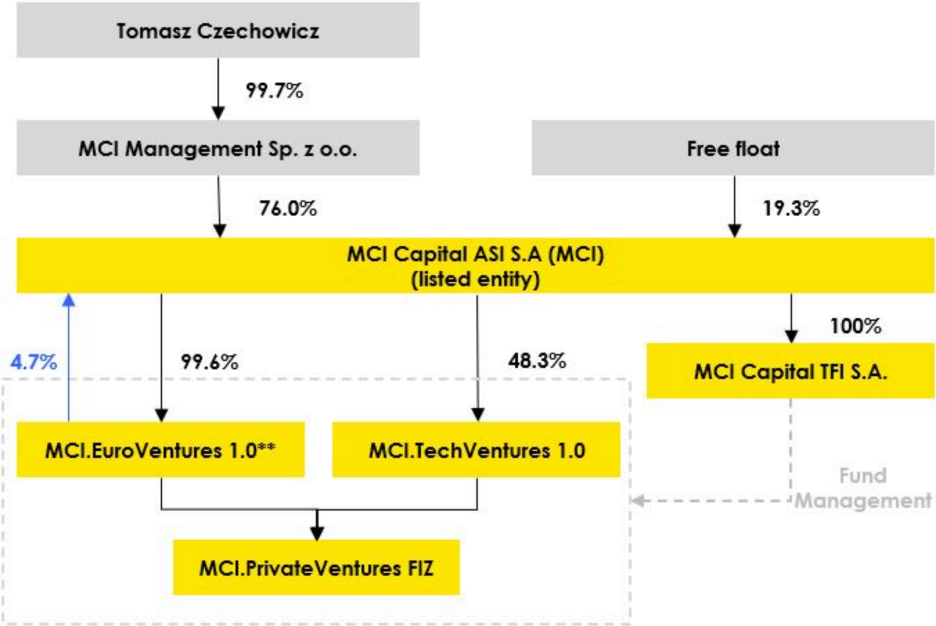
MCI Capital has several non-listed peers focusing on CEE, such as MidEuropa partners (its most recent fund is Mid Europa V with size of EUR 520 mn according to S&P or EUR 800 mn according to the European Investment Bank, the fund invests in various industries), Abris (its most recent fund is Fund III with size of EUR 500 mn according to the Czech Private Equity & Venture Capital Association and invests in various industries), Enterprise investors (its most recent fund is Enterprise IX with size of EUR 450 mn according to the International Finance Corporation and invests in various industries) and Innova (its most recent fund is Innova/7 with size of EUR 324 mn according to their website and invests in various industries). According to MCI, their share by asset value in the region rose to around 20% which ranks them in third place behind MidEuropa and Enterprise Investors. MCI Capital stands out in this peer group by being 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 in 1999 by Tomasz Czechowicz, who is still on board and acts as managing partner. He owns around 76.0% of the shares through MCI Management Sp. z o.o. In addition, a 4.7% stake is held by MCI.EV. The remaining 19.3% is in free float. The company's funds are managed internally through the wholly owned subsidiary MCI Capital TFI S.A. Investments in the funds are made through investment certificates. MCI owns 99.6% of the investment certificates of MCI.EuroVentures 1.0 and 48.3% of the certificates of MCI.TechVentures 1.0, with the remainder attributable to external investors.

Organisational structure*



**as at December 15, 2023; **MCI.EV holds 4.7% in MCI Capital ASI shares*
Source: MCI Capital

Dividend policy

On March 30, 2023, MCI Capital changed its capital distribution policy for the years 2023 and 2024. While the company did not recommend the payment of a dividend for 2022, it instead introduced a new model for distributing funds to investors. This model allows shareholders to sell their shares in MCI Capital to an entity from the broader MCI Group at a premium to the market price (note the current NAV/S discount).

In May 2023, MCI.PV, which operates the subfund MCI.EV 1.0, invited investors to submit offers for the sale of shares in MCI Capital. MCI.PV received offers for the sale of 1,123,780 shares by external investors and 1,340,421 shares by MCI Management Sp. z o.o. As a result, MCI.PV acquired a total of 2,464,201 shares, representing 4.7% of the total number of shares in the company, for a total consideration of PLN 55.4 mn. The settlement of the offers took place on June 7, 2023.

Internal financing and liquidity management

Internal debt/internal financing is an element of liquidity management within the MCI Group. It enables MCI.EV to invest its free cash flows, as MCI.EV receives interest on them. As at June 30, 2023, internal financing amounted to PLN 362 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 financing costs). These investments are always preceded by an investment decision approved by the Investment Committee of MCI Capital TFI SA (fund manager), as the fund/ sub-fund cannot act to the detriment of the participants. It is planned to refinance this internal financing with bank debt within the next two years. The total liquidity of the MCI Group amounted to PLN 780 mn as at June 30, 2023.

Management and investment team

Tomasz Czechowicz is the founder and majority shareholder of MCI Captal and is still the managing partner of the private equity company. He has an IT and entrepreneurial background and co-founded JTT Computer in the 1990s, which he turned into one of the leading PC assembly and distribution centres in CEE. In 1999 he founded the MCI Group, where he is responsible for the development strategy and business plans as well as the management of the group.

The MCI.TV and MCI.EV funds are managed by the founder and majority shareholder Tomasz Czechowicz. Ewa Ogryczak, a certified auditor and former partner at PKF Consult and manager at KPMG, is vice president and COO of MCI Capital and responsible for all operational aspects of MCI's business activities and fundraising.

In addition to Tomasz Czechowicz, the investment team consists of eleven other members. Michał Górecki is Senior Investment Partner and works closely with three Investment Partners: Filip Berkowski, Paweł Sikorski and Tomasz Mrozowski. Hubert Wichrowski is a Senior Investment Manager and Wojciech Degórski is an Investment Manager. In addition, the team is supported by five 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 President of PKO Bank Polski from 2009-2021. The supervisory board has a total of six members, including also Jaroslaw Dubinski, Andrzej Jacaszek, Marcin Kasiński, Jerzy Rozłucki and Grzegorz Warzocha.

Vast network of advisers

Additionally, the management is supported by several senior advisors and non-executive directors. These include partners from renowned consulting firms (Piotr Czapski, ex EQT Partners; Franek Hutten-Czapski, BCG), law firms as well as CEOs, vice presidents and executive directors from other companies, mostly focussing on financial services, technology or strategic planning.

Sustainability

Over the course of the pandemic, MCI Capital has developed an ESG strategy that takes into account the UN Sustainable Development Goals and the environmental and social standards developed by the IFC. All of MCI's investment decisions are assessed in terms of their impact on ESG issues, and MCI aims to promote activities aimed at reducing greenhouse gas emissions and increasing the efficiency of energy and natural resources. In particular, companies such as AsGoodAsNew, which are active in the field of refurbished high-tech consumer electronics, contribute to this goal.

Financials

The main driver of MCI's income statement is the valuation of the investment certificates in the MCI.EuroVentures 1.0 and MCI.TechVentures 1.0 sub-funds, which are generally valued internally. The funds are not consolidated, but are recognised in the balance sheet as financial instruments in accordance with the fair value of the investment certificates held.

9M 23 results comment

Income statement

(in PLN k)	2022	9M 22	9M 23	Δ %	comments
Profit/loss on investment certificates	158,196	72,358	230,946	31%	revaluation of certificates, mainly driven by MCI.EV fund
Revaluation of shares	-134	0	-11	0%	
Revaluation of other financial instruments	-17,411	-17,329	0	n.a.	
Other gain or loss on investments	0	0	29	0%	
Revenue from management	16,710	12,715	15,202	84%	PLN 11.6 mn from MCI.EV management fees
Cost of core activities	-813	-764	-308	248%	
Investment profit	**156,548**	**66,980**	**245,858**	**27%**	
Operating expenses	-20,396	-21,983	-31,659	69%	PLN 23.5 mn for remuneration and social security benefits
Other operating income/costs	474	-99	991	-10%	
Net financial costs	-23,685	-17,489	-24,667	71%	PLN 16 mn on bonds; PLN 8 mn on loans
Profit before tax	**112,941**	**27,409**	**190,523**	**14%**	
Income tax	30,320	31,953	-1,828	-1748%	dividend tax of PLN -3.7 mn*, def. taxes of PLN 1.9 mn
Net profit	**143,261**	**59,362**	**188,695**	**31%**	

**tax liability was related to the legal predecessor of MCI Capital, but was paid by MCI Capital*

Source: MCI Capital, RBI/Raiffeisen Research

Balance sheet

(in PLN k)	2022	Q3 22	Q3 23	Δ %	comments
Investments certificates	2,148,788	2,059,070	2,324,639	13%	mostly related to increase in value of MCI.EV
Other investments	5,911	6,045	860	-86%	
Receivables	10,621	9,291	57,451	518%	recognition of receivables from MCI.EV (Simbio Holdings)
Other assets	22,358	24,254	34,171	41%	
Cash and cash equivalents	37,499	38,477	25,568	-34%	
Total assets	**2,225,177**	**2,137,137**	**2,442,689**	**14%**	
Equity	**1,916,225**	**1,832,125**	**2,105,166**	15%	
Liabilities due to bonds	199,707	197,351	178,109	-10%	
Other debt	90,004	40,487	126,799	213%	increase in loan utilisation by PLN 27 mn
Provisions	13,317	20,291	27,226	34%	increase in carry fee provisions
Other liabilities	5,924	46,883	5,389	-89%	FY 21 dividend liability that was paid out in Oct 2022
Total liabilties	**308,952**	**305,012**	**337,523**	**11%**	
Liabilities and Equity	**2,225,177**	**2,137,137**	**2,442,689**	**14%**	

Source: MCI Capital, RBI/Raiffeisen Research

The revaluation of MCI.EV investment certificates made a positive contribution of PLN 244 mn, driven by investments in eSky (PLN 70 mn), Broker Topco (PLN 57 mn), MCI Capital ASI (PLN 31 mn), Gett (PLN 23 mn), PHH Group (PLN 28 mn) and IAI (PLN 12 mn). However, this was offset by the negative result from the revaluation of the MCI.TV investment certificates totalling PLN -24 mn. Several investments have declined in value, most notably Kriya (PLN -19 mn), Morele (PLN -12 mn), Gett (PLN -12 mn) and Gamedesire (PLN -11 mn). This was partially compensated by the increase in the valuation of Answear (PLN 14 mn). The rate of return on MCI.EV and MCI.TV was 12.7% and -11.8% respectively in 9M 23. The overall investment profit was also strengthened by a positive revaluation of the investment certificates of the Internet Ventures FIZ fund by PLN 8 mn.

Revenues from fund management amounted to PLN 15.2 mn, of which PLN 11.6 mn was attributable to the MCI.EV fund and PLN 2.4 mn to MCI.TV. For MCI.TV, the management fee was only charged for series of investment certificates belonging primarily to the MCI Group. In accordance with the fund's statute, management fees were not charged for investment certificates held by external participants, as there was no basis for this (MCI.TV had a negative rate of return).

Operating expenses in 9M 23 included costs for remuneration and social security contributions of PLN 23.5 mn, costs for external services of PLN 6.5 mn, depreciation of PLN 0.4 mn and other costs were PLN 1.2 mn.

Net financial costs were up by 41% yoy and were mainly driven by interest on bonds in the amount of PLN 16 mn (at the same level as in 9M 22) and interest expense on bank loans in the amount of PLN 8 mn (up yoy from PLN 1 mn due to an increase in the balance of loan liabilities and higher interest rates). These expenses were slightly moderated by a positive contribution from the remuneration for the provision of investment certificates against credit facility for MCI.EV and MCI.TV (at sub-fund level) in the amount of PLN 0.8 mn and interest income in the amount of PLN 1.2 mn.

The income tax for 9M 23 resulted from the dividend tax related to the legal predecessor of MCI Capital ASI, which was regulated by the company (PLN -3.7 mn), and from the deferred portion of income tax (PLN 1.9 mn). In 9M 22 and 12M 22 income tax (PLN 32 mn and PLN 30.3 mn respectively) was mainly the result of the change in deferred tax on the valuation of MCI.TV investment certificates due to decrease in portfolio value.

Peer group

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 at a median of 0.8x BV FY 23e. Based on FY 22a and FY 23e, its peers have a dividend yield of 3.3% and 3.9%, respectively. In comparison, MCI Capital's valuation seems attractive relative to its peers, as the company is currently trading at a ~36% discount to its trailing NAV as at Q3 23. The share price currently trades at a 14% P/B discount to the average of other listed private equity and venture capital companies that trade at a trailing P/BV of ~0.7x. 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 22a	23e	24e	25e	P/B 22a	23e	24e	25e	Dividend yield 22a	23e	24e	25e
3i Group PLC	26,498	5.7	5.5	6.0	5.8	1.2	1.4	1.1	1.0	0.0%	2.2%	2.5%	2.8%
Gimv NV	1,248	7.2	n.a.	n.a.	n.a.	0.9	0.8	0.8	0.8	5.6%	5.8%	5.8%	5.8%
Eurazeo SE	5,352	9.0	5.2	8.6	7.0	0.6	0.8	0.8	0.7	3.1%	3.2%	3.6%	3.9%
Deutsche Beteiligungs AG	522	-5.3	4.8	5.3	4.3	0.8	0.8	0.7	0.6	3.6%	4.6%	4.1%	4.2%
Molten Ventures PLC	563	1.6	-2.6	-6.4	4.8	0.4	0.0	0.4	0.3	0.0%	0.0%	0.0%	0.0%
Altamir	862	-32.0	35.6	32.4	29.8	0.6	1.2	1.3	1.3	4.5%	5.3%	5.5%	5.5%
IDI SCA	468	5.8	6.8	7.0	6.6	0.6	0.6	0.6	0.6	3.9%	4.5%	4.9%	5.2%
Ratos AB	1,024	20.9	13.6	10.7	8.8	0.9	1.2	1.2	1.1	2.4%	3.1%	3.9%	5.0%
Median		**5.8**	**5.5**	**7.0**	**6.6**	**0.7**	**0.8**	**0.8**	**0.8**	**3.3%**	**3.9%**	**4.0%**	**4.6%**
MCI Capital	305	5.9				0.4				4.4%			

1) in EUR mn; as at December 15, 2023

Source: Bloomberg

Peer group ROE

Company name	Currency	Last price[1]	5Y historical average	2022a	2023e	2024e	2025e
3i Group PLC	GBp	2,349.0	21.8%	31.5%	24.7%	18.8%	16.4%
Gimv NV	EUR	45.0	4.4%	12.2%	n.a.	n.a.	n.a.
Eurazeo SE	EUR	70.4	8.5%	6.4%	14.8%	9.1%	10.7%
Deutsche Beteiligungs AG	EUR	28.2	8.2%	-16.8%	16.1%	12.9%	13.9%
Molten Ventures PLC	GBp	277.0	13.5%	21.0%	-0.3%	-5.9%	7.0%
Altamir	EUR	23.8	13.0%	-2.1%	3.4%	3.9%	4.3%
IDI SCA	EUR	64.2	12.5%	11.9%	8.5%	8.4%	8.8%
Ratos AB	SEK	34.9	7.9%	4.0%	9.0%	10.9%	12.4%
Median			**10.5%**	**9.2%**	**9.0%**	**9.1%**	**10.7%**
MCI Capital			6.6%	7.7%			

1) as at December 15, 2023

Source: Bloomberg

Overview and descriptions

3i Group

A British private equity and infrastructure investment company listed on the LSE. The company has a portfolio of around GBP 20 bn (>EUR 23.6 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 36% over the past five years with 43% in FY 22 (2021 26%).

Gimv

An 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 11.5% 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 27% and H1 23/24 return was 13.3%. It has a portfolio in size of EUR 1.6 bn.

Eurazeo

Eurazeo is a French investment company with AUM of around EUR 33.5 bn, 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.

Deutsche Beteiligungs AG

Deutsche Beteiligungs AG is a listed private equity company from Germany that manages closed-end private equity funds. It has AUM of around EUR 2.5 bn. 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.

Molten Ventures

Molten Ventures is a venture capital firm with a portfolio size of EUR 1.6 bn and is known for 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%.

Altamir

Altamir is a listed (Euronext Paris) private equity company which invests through and alongside of the funds managed by Apax Partners. It has a portfolio size of around EUR 1.3 bn. 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.

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. It has a portfolio size of around EUR 1 bn.

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. Its portfolio size is not disclosed.

Please note that RBI considers the provision of this report as "minor non-monetary inducement" under MiFID II. Please ensure that your company is allowed to receive such inducement and it is handled properly in your processes.

Disclosure

MCI Capital:

6. RBI or one of its affiliated legal entities has entered into an agreement with the issuer on the provision of investment recommendations.

Risk notifications and explanations

Warnings:

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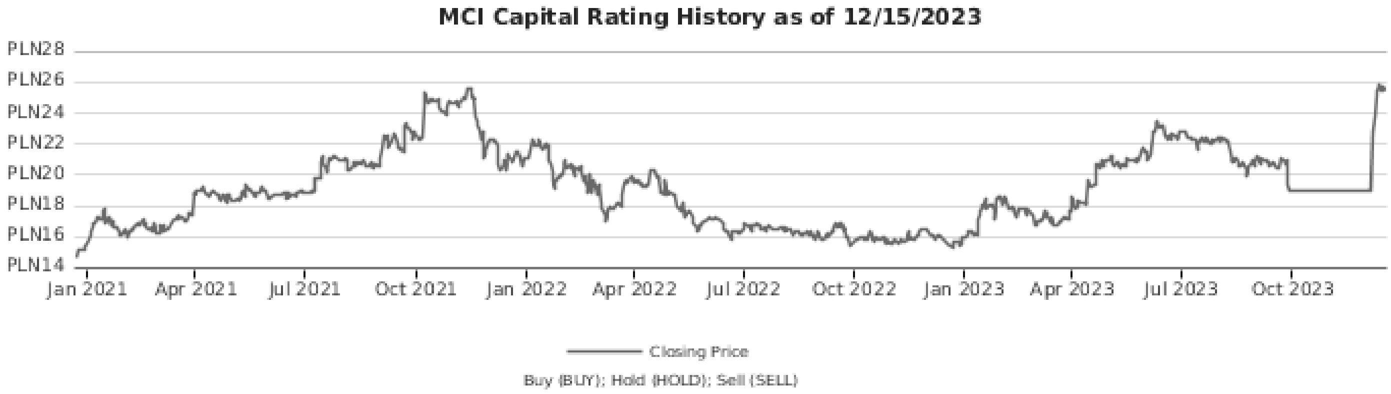

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