Bank BGŻ Biuro Maklerskie

4 October 2010

MCI Management

sector / industry: Finance

Ticker: **MCI**

ISIN: **PLMCIMG00012**

Buy

8.76 PLN

Company profile

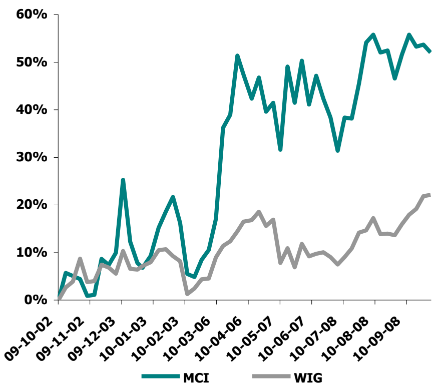
MCI Management is a company managing private equity and venture capital funds. The results of the company are generated from revenues connected with managing assets and the revaluations of financial assets being in the position of the company.

Basic data

Stock Price (1/10/10)
7.2
DCF Valuation (optimistic)
8.8
DCF valuation (conservative)
7.3
Comparative valuation
8.3

Quotes	
max price 52 weeks (PLN)	7.9
min price 52 weeks (PLN)	4.6
Average turnover volume (thousand)	234.22

Shareholder structure	% shares	% votes
Tomasz Czechowicz and ImmoVentures Sp. z o.o.	41.0%	41.0%
Others	59.0%	59.0%



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Results and financial forecasts

MCI may consider the first half of this year as successful. Revaluation of investment assets enabled to generate a total net profit of over 21 million PLN, thus increasing own capital of MCI to 311 million PLN (40% growth y/y). The main driver of growth in this period were the companies from MCI.TechVentures fund, while the fund MCI.EuroVentures underperformed due to the low valuation of ABC Data at the end of 1H.

The company announced its financial forecast for the year 2010, which assumed generating net profit of 67 million PLN. Realizing 1/3 of this value in the first half of the year does not preclude realizing the assumed result, because in 3rd quarter the revaluation of ABC Data may have a significant positive influence on the final result (at the date of this report it is over 30 million PLN). The final result may ultimately depend on the stock market situation, because five companies representing 60% of MCI's portfolio are listed on the WSE.

Investment portfolio and new investments

The investment portfolio of MCI Management comprises assets gathered in investment funds and other financial instruments that belong directly to the company (e.g. Shares of ABC Data). The value of all assets is about 400 million PLN and it is characterized by dynamic growth over the last several years.

MCI funds are constantly seeking new investment opportunities, which lay the foundations for long-term capital growth. Like the establishment of a new fund, (Internet Ventures) that will have 100 million PLN at its disposal by the year 2011. Nonetheless, other funds are also working on many new projects - recently the TechVentures fund invested 20 million PLN.

Perspectives of the company

The perspectives of the private equity market in Poland are very good, which should help MCI to raise capital for the funds managed by the Company. As a consequence, the revenues and profits from these activities will grow. Only in the first half of the year, the assets under management of MCI grew from 418 to 554 million PLN. While the second factor that decides about the results of the company is the value of its investments. These in turn are characterized with stable long-term growth, bidding well for the years to come (the 10-year internal rate of return IRR is almost 20).

Valuation and summary

We have prepared the valuation of MCI Management using the method of discounted cash flows in two variants - optimistic and conservative, which differ by the rate of raising assets to the funds managed by MCI. The assumptions we adopted enabled us to establish the prize at 8.8 PLN and 7.3 PLN respectively. Additionally, we also used the comparative method that determined the value of MCI shares at 8.3 PLN. It is worth adding that the management company alone (exclusive of its investment assets) is valuated at 1.9 PLN per share.

The growing importance of the stable result from asset management and the capacity to increase the value of the assets of the company in the long run give MCI a good chance to increase its stock price. Therefore, we give the recommendation BUY for MCI Management with the target market price at the level of 8.76 PLN, at the same time considering a high risk of a short-term drop in stock price in the event of the deeper stock market correction.

mln zł	2007	2008	2009	2010P	2011P	2012P
Revenues from sales	11,8	1,1	8,8	13,1	20,3	30,0
change y/y (%)	-87,1%	-90,7%	698,7%	49,5%	54,0%	48,1%
Result on investment	34,5	40,7	42,2	62,6	71,8	83,0
EBIT	74,9	31,6	53,2	68,6	83,7	103,0
EBIT margin (%)	632,9%	2866,0%	604,6%	522,1%	413,2%	343,5%
Net profit	80,0	21,2	44,4	63,5	76,6	93,2
Net margin (%)	675,7%	1922,9%	504,4%	483,1%	378,1%	310,7%
EPS (zł)	1,97	0,52	0,98	1,22	1,47	1,79
BVPS (zł)	3,82	5,14	5,85	6,79	8,26	10,06
P / E	3,7	13,8	7,4	5,9	4,9	4,0
P / BV	1,9	1,4	1,2	1,1	0,9	0,7

P - Prognosis of BM BGŻ

Information on disclosure of possible conflicts of interest, mentioned in § 9 and 10 of the Regulation of the Council of Ministers dated 19 October 2005 can be found on the penultimate page of this publication.

Valuation

The valuation of the company was prepared using:

- The fundamental method based on discounted cash flows;
- The comparative method.

The fundamental valuation researches the company's ability to generate free cash flows. The comparative method, on the other hand, presented the company against the competition and created a benchmark that becomes a point of reference as to the position of the company in relation to the industry.

DCF valuation

Using the DCF method to valuate MCI Management we apply to two scenarios - optimistic and conservative, which enabled us to obtain the value of the company MCI Management in the amounts for 457.2 million PLN (8.80 PLN per share) and 378.7 million PLN (7.29 PLN per share) respectively. The scenarios differ by the dynamics of raising capital for the investment funds managed by MCI Management. In the optimistic scenario, the assumed dynamics of raising capital for management is much higher (balance at the end of the year 2010 is 170 million PLN, 300 million PLN in the year 2011, and 600 million PLN in the year 2012). In the conservative scenario, we assume the amounts of raised capital of 130 million PLN at the end of the year 2010, 170 million PLN in the year 2011 and 250 million PLN in the year 2012. After the three-year forecast period, we adopted a random increase in subsequent years, assuming 10% expected value of growth and a 20% standard deviation of the rate of growth (generated results based on 5,000 attempts).

Whereas both valuations were constructed following these assumptions:

- The valuation includes only revenues from managing assets belonging to investors other than MCI;
- The forecast assumes only organic growth, not including possible acquisitions;
- The risk-free rate was adopted based on the profitability of 10-year treasury bonds, which is 5.5%, while the market risk premium was adopted at the level 5.5%;
- The beta quotient was calculated on the base of a leveraged coefficient from the average calculated on beta coefficients for comparable companies concerned with managing assets. Because it is more justified to apply a historical beta due to the changes in MCI's profile of activities towards a managing entity;
- The effective tax rate is 19%, given that taxes are only paid on profits from management;
- The company will not incur any significant investment expenditure, therefore depreciation will also constitute a marginal value;
- Indebtment will reach 25% of the value of assets, while most of this value will be attributable to long-term liabilities;
- The costs will increase proportionally to the scale of growth of the company's operations, which will allow maintaining a 50% profitability on operating activities;
- The forecast assumes that no dividends are paid;
- Working capital items are insignificant and they do not create a demand for cash;
- The valuation includes the current value of investment certificates belonging to the company, considering them to be financial assets and at the same time assuming their valuation to be fair; while in the forecast financial statements we assume the value of investment certificates to grow by the amount of the historical rate of return generated by MCI; at the same time we assume the company invests any financial surplus in the certificates of the funds;
- We presume that no new shares are issued;

- The forecast and valuation do not include one-off transactions or the ongoing lawsuit for compensation from the National Treasury (if the case is ruled in favor of the company, it could increase its valuation even by 1 PLN per share);
- All presented values are nominal;
- The price of shares was valuated as on 4.10.2010.

Table: Valuation using the DCF method

	Optimistic scenario			**Conservative scenario**		
(million PLN)	**2010F**	**2011F**	**2012F**	**2010F**	**2011F**	**2012F**
Assets under management at year end	170	300	600	130	170	250
Operating result	1.5	3.5	6.8	1.2	2.3	3.2
Effective tax rate	19%	19%	19%	19%	19%	19%
FCFF	**1.2**	**2.9**	**5.5**	**1.0**	**1.8**	**2.6**
Risk free rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Market premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Beta	2.15	2.15	2.15	2.15	2.15	2.15
Cost of equity	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%
Cost of duct	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of debt after tax	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
% share of equity	80.1%	79.3%	78.1%	80.1%	79.3%	78.1%
% share of debt	19.9%	20.7%	21.9%	19.9%	20.7%	21.9%
WACC	15.0%	14.9%	14.8%	15.0%	14.9%	14.8%
FCFF current value	1.2	2.4	4.0	0.9	1.5	1.9
Sum of DFCFF	7.6			4.3		
Discounted residual value	129.6			54.4		
Value of operating activities	137.2			58.7		
Management value per share	**2.6 PLN**			**1.1 PLN**		
Financial assets	396.4			396.4		
Indebtment	76.4			76.4		
Value of MCI's equity	457.2			378.7		
Number of shares (million)	51.97			51.97		
Value of one share	**8.80 PLN**			**7.29 PLN**		

Source: BM BGŻ. *F - forecast of BM BGŻ*

Comparative valuation

The comparative valuation was based on two indicators. The first one (EV/revenues) shows the proportion of the value of the company (calculated as the sum of own capitals and net indebtment) to total revenues generated by activities connected with asset management. The second indicator (P/AuM) was calculated as a quotient of market capitalization in relation to the value of assets under management. However, this result was increased by the net value of financial assets, which in MCI's case are equal to the value of investment certificates of MCI funds, other financial instruments and cash and less indebtment.

The comparative valuation was made against public listed companies that are concerned with managing assets in the form of private equity funds or in the form of investment funds or trusts. We used the indicators for three companies - Blackstone, Partners Group and Quercus TFI. Their short characteristic can be found below.

Blackstone Group is a company managing assets and offering financial advisory services. The company has over $98 billion in assets under management, in the form of private equity funds, real estate funds, hedge funds and other investment funds, while the advisory part mainly handles merger and acquisition transactions, turnaround and fundraising for companies. The company is listed on the NYSE, USA.

Partners Holding Group originates from Switzerland and operates around the world in the segment of asset management. The company manages over 25 billion CHF, investing mainly in private equity, real estate and hedge funds in Europe and USA. The group manages a series of funds, structuralized products and individual portfolios for institutional clients, banks and individuals. Partners Holding Group is listed on the Swiss stock exchange.

Quercus TFI is the only one so far, except for MCI Management, Polish entity from the segment of asset management listed on the stock exchange. The company offers services consisting in managing assets in the form of investment funds since the year 2008. At the end of August 2010, total assets gathered by Quercus TFI were over 1.1 billion PLN. The company is listed on the NewConnect market.

Table: Comparative valuation

	EV / revenues		P/AuM
	2009	**2010F**	**2010**
Quercus TFI	30.0	7.6	0.17
Blackstone	7.7	4.7	0.12
Partners Group	12.6	11.2	0.16
Average	16.8	7.8	0.15
MCI			
Indicators for MCI	6.3	4.2	0.68
Implied value of MCI (million PLN)	147.6	102.8	83.5
Management value per share	**2.8**	**2.0**	**1.6**
Adjustment for net financial assets	320.0	320.0	320.0
Total	467.6	422.8	403.5
Value of one share	**9.0**	**8.1**	**7.8**
Indicator weights	33%	33%	33%
Valuation of one share	**8.30 PLN**		

Source: BM BGŻ S.A. *F - forecast of BM BGŻ and Reuters*

The comparative valuation based on the above indicators enabled us to determine the value of one share of MCI Management at the level of 8.30 PLN, provided that weights are equal for all indicators. It is worth adding that all computed valuations indicate the value of the Company is higher than its current stock price. As a result, we can say that current operations of the Company differ from the valuation computed on the base of comparison with other entities from the asset management industry, thus the Company could be considered to be undervalued.

Valuation summary

The final valuation was obtained by calculating the weighted average from the three previous values - the optimistic and conservative valuation using the DCF method and the valuation using the comparative method, with all the three variants having the same weight (33%). Established in this manner, **the value of**

the managing company is from 1.1 to 2.8 PLN per one share of MCI (valuation average is 1.9 PLN). After including the net financial assets, the final price calculated by us falls between 7.29 and 8.80 PLN, thus giving 8.13 PLN for one share, provided the weights are equal. This valuation was adjusted by the increase in the stock price of ABC Data in relation to the price and the end of June, which is included in net assets. The change in stock price from 2.39 to 2.80 PLN generates an additional profit of about 33 million PLN, giving 0.63 PLN per share. As a result, **we determine the target price at the level of 8.76 PLN**. Because the target price is higher than the current stock price by more than 10%, we have decided to issue the recommendation of BUY for MCI Management. However, due to the high volatility of the company's stock price and its sensitivity to stock market trends, we would like to draw your attention to the high risk of a short-term drop of the stock price in the event of a bear market.

Table: Valuation in summary

	Valuation of 1 share	Weight
DCF method (optimistic)	8.80	*33%*
DCF method (conservative)	7.29	*33%*
Comparative method	8.30	*33%*
Valuation of MCI	**8.13 PLN**	
Adjustment	0.63 PLN	
Target price	**8.76 PLN**	
Current stock price	7.22 PLN	

Source: BM BGŻ.

Characteristic of the Company

Financial results

The financial results of MCI Management, and hence the value of this company, depend on two factors. The first one, which until now had the most significance, is the value of the investment assets of the company. Before, it was direct shareholding in individual companies, while now after the transfer of all shareholdings to the closed-end investment funds their value is expressed through the investment certificates of these funds, which are managed by MCI. In turn, the second factor generating results only since very recently is the revenue connected with managing those investment funds, for which the fees are collected in two forms - a flat fee that depends on the amount of assets and additional premiums depending on the results realized by each fund. When the profits reach a certain level in a given time, then MCI is entitled to a premium on this result. These funds, in addition to MCI capital, include at present over 25% of assets coming from external investors.

The factors described above have shaped the results reported by the company in recent years. Before all shareholdings were transferred to the investment funds daily results were usually consolidated using the full method. Transferring subsequent companies to the funds cause a systematic decrease in recorded revenues. Meanwhile at present the revenues item in the profit and loss account comprises only fees and commission connected with managing investment funds.

Table: Financial results of MCI Management

(million PLN)	2007	2008	2009	2010F
Total revenues	11.8	1.1	8.8	13.1
Changing y/y	*-87.1%*	*-90.7%*	*698.7%*	*49.5%*
Result on investments	34.5	40.7	42.2	62.6
EBIT	74.9	31.6	53.2	68.6
Gross profit	75.3	25.1	42.4	63.7
Net profit	80.0	21.2	44.4	63.5
Debt/equity	0.4	0.4	0.2	0.2
Debt/assets	0.3	0.2	0.2	0.1
Cash flows from operating activities	-17.4	-7.4	-2.4	6.0
Cash flows from investment activities	-46.8	-10.0	5.6	-0.3
Cash flows from financial activities	60.7	17.5	-10.2	20.4

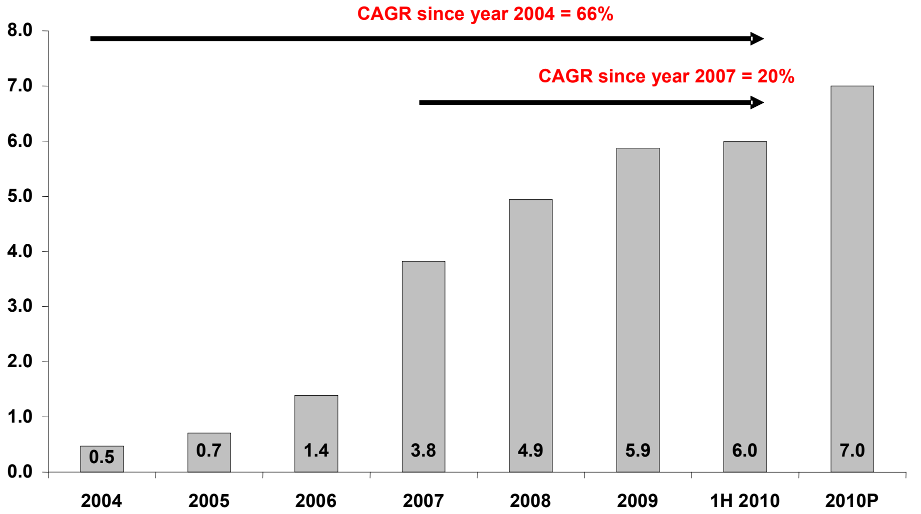
Source: financial statements of the Company, BM BGŻ. *F - forecast of BM BGŻ*

The most significant item in the profit and loss account is the result on investment, which now depends on the revaluation of the investment certificates in possession of MCI. The value of certificates is established at the end of the each quarter through valuation that is subject to approval by external entities, and then by the depositary and auditor, which guarantees an objective valuation of equity. The total result on operating activities and the revaluation of certificates comprise MCI's total result. It is worth mentioning that the company only pays tax on profits generated from management, while the revaluation of certificates does not incur any tax liability, because it is postponed until the moment a certificate is redeemed, which is advantageous for the company.

Low cash flows coming from fund management, resulting from the relatively small amount gathered in the funds so far, are the most significant positive cash flow from operating activities. Due to the fact that profit on investment is not connected with generating cash flows, the balance of operating activities in the cash flow was thus far negative, although the situation can change this year. Investment activities reflect all acquisitions of new shareholdings (now certificates) and exits from investments. While the positive balance on financial activities is a result of the company's fundraising activities - issuing shares and bonds. MCI does not pay dividends to its shareholders, because the return on investments of the company is very high and that would be ineffective. As a result, all financial surplus remains in the company and is reinvested in the funds.

An important aspect of MCI's operations is financial leverage achieved by raising external capital in the form of loans and bonds. After the first half year, the company's indebtment from all financial liabilities was almost 80 million PLN, including the new issue of bonds worth 50 million PLN, which was aimed primarily at financing redemption of securities issued in the year 2004. The target financial structure of the company assumes the share of external capital in the balance total to be around 25%.

Graph: Book value per share of MCI Management (at the end of the reporting period)



Source: The Company, BM BGŻ.

MCI as a holder of financial assets is valuated mainly based on book value. The above graph represents changes in book value per one share of the Company. The dynamic growth of the value of net assets related to the number of shares is clearly visible, best proved by the average annual rate of growth of this item amounting to 66% in the scale of 5.5 years and over 20% in the scale of 2.5 years. It is necessary to emphasize that an upward trend was maintained despite the unfavorable market conditions and the loss of value of the majority of listed companies in the years 2008-2009. The IRR of MCI investments for the whole period the fund is in existence is currently 19.8%. This value is a good prognostic for long-term growth of book value in subsequent years, although maintaining this kind of growth rate will be difficult.

Forecast for the year 2010

The forecast of the Board presenting the results for the year 2010 was published in February. It assumes that revenues from asset management and the growth of value of investment certificates held by MCI would generate a total annual result of 67 million PLN. The factor that will be the most the influential on this year's result is the performance of the largest portfolio company - ABC Data - on the Warsaw Stock Exchange and the expectation of an increase in value of other portfolio companies. Additionally, the revenues from asset management should also be increasing due to raising new assets for the MCI funds. If a strong sentiment in the capital market does not spoil the moods of investors, the results achieved by the Company in subsequent years should also be very good.

Table: Forecast of the Board of MCI Management for the year

(million PLN)	2008	2009	2010F
Net profit	21.5	44.4	67.0

Source: Company, BM BGŻ.

Our results forecast of the result for the year 2010 and subsequent years assume an increase in value of financial assets belonging to the company, which were based on the historical rate of return generated by MCI, provided that it maintains a similar level. It is also important however to keep in mind that the current market situation has a direct influence on the results reported by the company, because they include the revaluations of financial assets held by MCI. The table below presents the estimate the changes in the value of MCI assets, which will translate into results under the influence of fluctuations on the stock exchange. Due to the fact that currently five portfolio companies are already publicly listed, we can determine a positive or negative deviation from current valuations. The data shown in the table suggests that a medium correction (20% decrease) could cause about 50 million in losses for the Company. This factor however works both ways; therefore, a strong upward trend could improve the result by similar amount. ABC Data is of course the most sensitive to price fluctuations, because its share in the portfolio of MCI is about 2/3 of the total value of assets.

The sensitivity analysis presented in the chart below shows the difficulty in forecasting future results of the Company and at the same time emphasizes the higher risk of investing in shares of MCI Management. However, together with the growth of assets under management of MCI Management part will be playing a more and more important role in generating results. As a result, the stability of these results should be slowly improving while at the same time reducing the fluctuations of the company's stock price.

Table: Estimated influence of the change in value of portfolio companies on the result of MCI Management

(million PLN)	-20%	-10%	+10%	+20%
ABC DATA	-44.0	-22.0	22.0	44.0
All portfolio companies currently listed on the WSE	-50.0	-25.0	25.0	50.0

Source: BM BGŻ.

Operating activities

MCI Management is one of the longest operating and most experienced groups managing private equity and venture capital funds in the region of Central-Eastern Europe. The company is cooperating in this segment since the year 1999; it is listed on the Warsaw stock exchange since the year 2001. Currently (end of 1H 2010), the company manages assets worth approximately 550 million PLN, the assets are allocated within five investment funds - MCI.BioVentures, Helix Ventures Partners, MCI Gandalf Aktywnej Alokacji SFIO, MCI.TechVentures and MCI.EuroVentures, with the latter two being the subfunds of MCI.PrivateVentures FIZ. The above value also includes investment commitments including 100 million PLN in assets dedicated to the Internet Ventures fund, which is currently in organization. It is justified, because the management fee is also collected from these assets.

At present, MCI has investments in Poland and the Czech Republic; historically, it can boast eight IPOs of its portfolio companies and 18 full and 5 partial exits from investments, which delivered an internal rate of return (IRR) at the level of 19.8% over the last 10 years, thus placing MCI among the top private equity funds in Europe.

Table: The funds of MCI Management (assets exclusive of investment commitment, as at the end of 1H 2010)

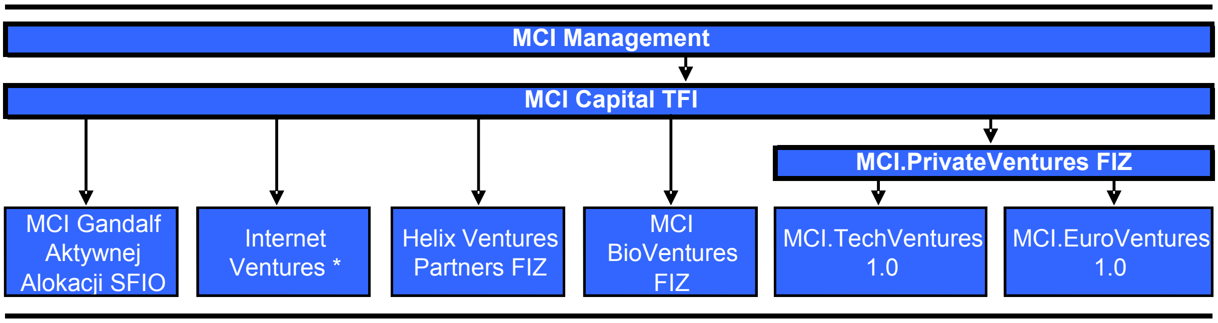
Fund	Number of companies	Value of assets (million PLN)	MCI's share in assets
MCI.TechVentures 1.0	14	146.3	96.3%
MCI.EuroVentures 1.0	3	134.3	94.3%
MCI.BioVentures FIZ	1	7.6	99.5%
Helix Ventures Partners FIZ	1	2.6	30.0%
MCI Gandalf SFIO	-	20.9	-

Source: The Company, BM BGŻ.

MCI.TechVentures, as the subfund of MCI.PrivateVentures FIZ, is a venture capital fund investing in the new technologies sector. Assets under management of this fund are approximately 146.3 million PLN (as at the end of 1H 2010), and target investments are in the scope of 1.5-5 million EUR. The fund's strategy is based on financing the expansion and growth of companies, mainly in the sectors of Internet and telecommunications services, e-commerce as well as services and mobile technologies. MCI owns 97% of the certificates of the fund; the remaining part belongs to individual investors acquiring the certificates through the private banking offer in Raiffeisen Bank.

The fund's portfolio includes 14 companies. The largest assets in this fund are two companies who are online resellers of travel services - the Czech Invia and the WSE-listed Travel Planet. Both companies are profitable and characterized by high growth potential. The third largest company in the portfolio is Telecom Media - one of the largest distributors and suppliers of multimedia content for mobile phones on the market. When it comes to the portfolio of MCI.TechVentures, two more entities are worth mentioning. The first one - Geewa - supplies simple online games used on social networking sites.

Graph: Organizational structure of MCI Management



* Fund in organization

Source: The Company, BM BGŻ.

MCI.EuroVentures is the second subfund of MCI.PrivateVentures. It is a buy-out fund investing mainly in companies from the TMT industry (technology, media and telecommunications) as well as commerce and distribution; the target companies are medium-sized entities in the phases of restructuring or growth, and the target size of investment up to 25 million EUR. At the end of 1H 2010, the assets of the fund were 196.3 million PLN, although this amount will soon be significantly increased by the transfer of the shares of ABC Data owned directly by MCI.

ABC Data, which has the largest share in the assets of this fund, is an IT distributor in Central Eastern Europe, whose market value is over 300 million PLN. After issuing shares through an IPO, MCI still directly holds over 66% of all shares in the company. ABC Data is the largest company in the portfolio of MCI funds and guarantees the fund highest returns. In the year 2009, this company generated almost 2.4 billion PLN in revenues, while recording over 40 million PLN net profit. In addition to ABC Data, the portfolio includes three more companies with marginal significance. MCI holds over 94% of the fund certificates.

MCI.BioVentures is a relatively new venture capital fund focusing on such industries as healthcare, biotechnology and medicine. The fund's capital engagement is between 0.2 and one million euro and is aimed at financing growth of projects and business support. The fund currently includes three investments from the medical sector controlled by a single entity. The assets of the fund the reach almost eight million PLN and practically all certificates belong to MCI.

Helix Venture Partners was created with the participation of the National Capital Fund, which also contributed part of the capital. Total assets managed by the fund are to reach 40 million PLN (assets will be paid successively following the demand for new investments), however the first investment was made only in January of this year. The fund aims to finance entities at early stages (so-called startups) from the areas of software and mobile technologies, with the amount of a single investment between 0.5-1.5 million EUR.

MCI Gandalf Aktywnej Alokacji SFIO currently manages the amount of 20.9 million PLN (at the end of 1H 2010), investing mainly on the stock market, commodities market, foreign exchange market and debentures market. All assets come from external investors and the fund aims to maximize the absolute rate of return while minimizing the risk of incurring a loss.

The latest fund is **Internet Ventures** still in organization, however its operations should commence from the beginning of the year 2011. At the moment, the value of investment commitments is 100 million PLN, with 25% of this amount coming from MCI and the remaining amount from IIF Group and the National Capital Fund. The fund's investment focus is on the sectors of electronic media, e-commerce, technologies and online services as well as mobile. Investment targets are companies at early stages of development, and the value of a single acquisition should fall between 0.5-1.5 million EUR.

Assets under management of the MCI funds were mostly contributed by the company itself, however already over 25% of investments come from external investors (including investment commitments). Throughout the next quarters, this situation will significantly change, due to raising capital from multiple sources. The first one is a proposal directed to institutions offering private banking services. They are an excellent source of large quantities of capital coming from wealthy individuals who are ready to invest in this type of funds. So far, such cooperation was established with Raiffeisen Bank.

The second source of fundraising will be strategic partners of MCI providing significant investment commitments (e.g. The National Capital Fund), as well as individual investors who may acquire fund certificates. Due to the high risk and the relatively high threshold of entry to private equity funds, as well as notable limitations in liquidity of investments this offer is aimed at a specific investor. It enjoys significant interest however, and the assets raised from this source will increase in subsequent quarters.

Another way to increase assets under management may also be transferring whole companies to such funds in exchange for certificates; following this, the fund would take control of managing this company. Finally, MCI may also issue new shares or bonds, and the assets raised from the issues may be allocated for investments in the funds managed by the company. New assets for management may also be raised through the creation of new funds in existing segments, as well as segments that have not been available in Poland yet, although the company does not disclose as to what kind of segments these may be.

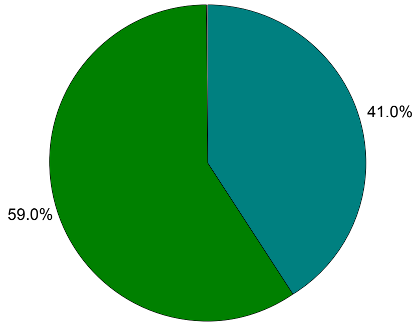
MCI's competitive advantage in the segment of managing private equity funds originates from several factors. MCI is one of the oldest and most experienced managing entities for these kinds of funds in Poland. The assets, which are under management of the company, are also one of the largest in the country. Current investments, characterized by high average rates of return, and numerous successful exits from portfolio companies confirm the effectiveness of executed investments.

The relatively long history of operating on the Polish market, as well as good results generated by the funds managed by MCI Management, should facilitate easier fundraising in the future. Expanding its offer of funds should also prove beneficial for the further development of the company and the improvement of its financial results, which in combination with good perspectives for the segment of private equity in the region of Central-Eastern Europe makes a very interesting investment proposal.

Shareholder structure

In the shareholders' structure the dominating the role is played by Tomasz Czechowicz (together with ImmoVentures Sp. z o.o.), who also acts as the President of the Company and holds 41% of all shares of MCI Management. After BZWBK AIB Asset Management reduced its engagement in the shares of MCI, the shareholding structure does not identify any financial investors, although many funds hold shares in the company. The remaining part of shares (over half) is freely traded, which makes the shares of MCI highly liquid - average daily volume is almost 240,000 shares.

Graph: Shareholding structure of MCI Management



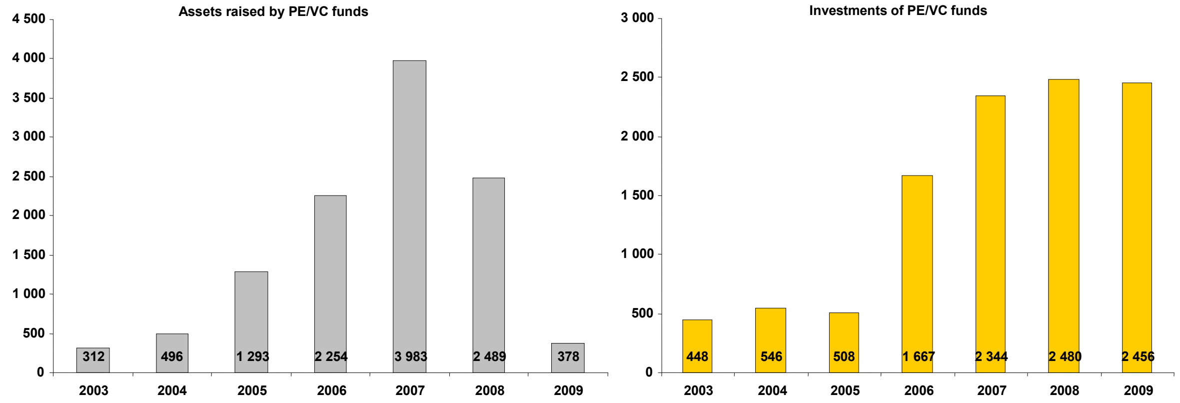
	Number of shares (k)	% shares	% votes
T. Czechowicz (together with ImmoVentures Sp. z o.o.)	21 284.9	41.0%	41.0%
Others	30 685.4	59.0%	59.0%

Source: The Company, BM BGŻ.

Market of private equity funds in Central Eastern Europe (CEE)

The market of venture capital (VC) and private equity (PE) funds in Western Europe has strong traditions, while in the region of Central Eastern Europe its dynamic development could be observed for only a few years. The year 2007 was record breaking in this respect, when the funds from this region raised over €4.2 billion. The collapse on the financial markets in the year 2008, translated into lower interest in this kind of investments and the amount of incoming assets was 40% lower than the year before, however it still exceeded the value from the year 2006. Last year was even worse, however, the high level of investment activities prevailing in recent years should convince new investors to engage their capital in this form of investment. Because a positive correlation can be observed between the inflow of assets to VC and PE funds and stock market trends, we can expect that since the year 2009, together with the improving situation on the financial markets, the inflow of new capital should increase.

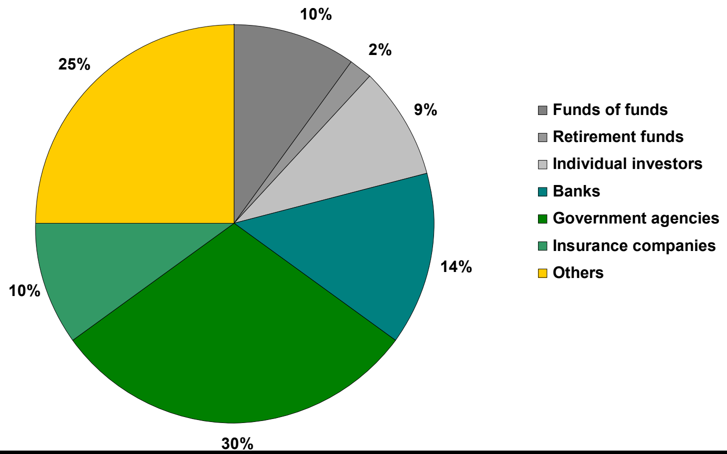
Graph: The value of assets raised by venture capital and private equity funds and the value of executed investments (data for CEE market, million EUR)



Source: EVCA, BM BGŻ.

High amounts rolling in to PE and VC funds from the CEE region in recent years indicate significant interest from global investors in this region - over half of assets came from Europe, while the other half came mainly from the USA. It is worth mentioning that the above amounts constitute only a small share in the capital raised by VC and PE funds in the whole of Europe - 2% in 2009, 3% in 2008 and 5% in 2007. Meanwhile, the investments of the funds are executed mainly in the biggest countries of the region - in Czech Republic, Poland, Hungary and Romania. It is important that the investments in Poland corresponded to over 10% in the year 2009, and in the year 2008 to over ¼ of all investments in the region (268 and 628 million EUR respectively).

Graph: Investors in private equity and venture capital funds (data for CEE region, 2009)

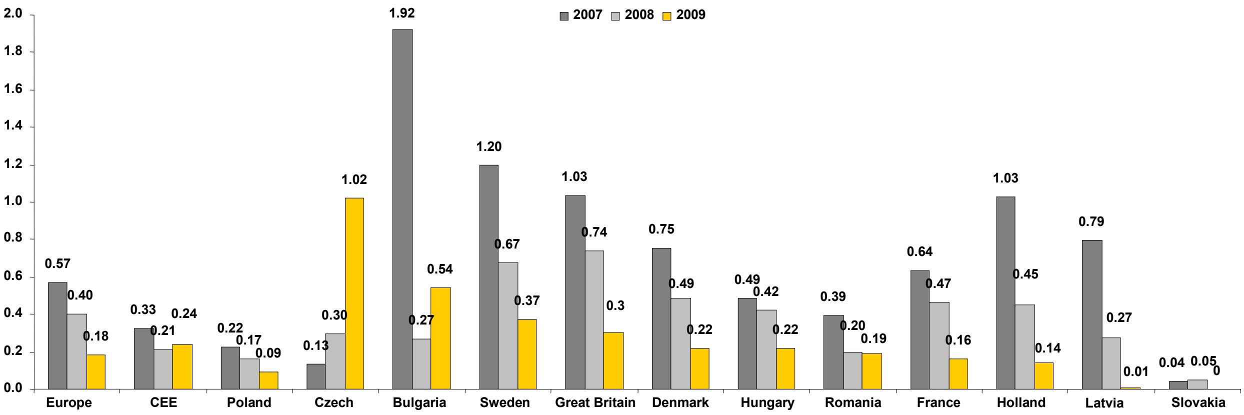


Source: EVCA, BM BGŻ.

The largest source of capital for the VC and PE segment are funds of funds, which supply about 25% of all assets. The second most significant source is retirement funds, although we should add that Polish institutions have not shown interest in this form of investment so far. The example of western states where retirement funds deposit up to several percent of their assets in VC and PE funds, allows us to assume that over time Polish open-ended retirement funds (OFE) will also become a significant source of capital, fueling the ever-growing base of assets under management of VC and PE funds. Next, we could also mention banks, foundations and insurance companies. Last year was rather special, because government agencies and other institutions that traditionally contribute only a few percent played the dominating role. This is the result of a drastic decrease of interest in new investments among other capital suppliers. When it comes to geographical location, the leading countries are still Great Britain and Switzerland, responsible for over half of the assets allocated to VC and PE.

The nominal amounts of investments do not reflect, however, the significance of VC and PE funds in individual countries. The indicator which best describes this relationship is the ratio of the investments of VC and PE funds in relation to gross domestic product. In the year 2007, which was very good for these funds, this ratio was that and much higher level than in the years 2008 and 2009. However, the rankings changed very little - the activities of PE and VC funds are most developed in countries like Great Britain, Sweden or Denmark. The average ratio for all of Europe was 0.18% in the year 2009, while in the CEE region it was 0.24%, in Poland however, it was only 0.17%.

Graph: Percentage share of private equity investment in GDP of country/region (2009)



Source: EVCA, BM BGŻ.

The above statistics enable us to draw several important conclusions. First of all, the market of VC and PE funds in Poland is still underdeveloped, both in relation to western states, as well as in relation to other countries from the CEE region. As a result, this channel will increase in significance when it comes to raising capital for businesses in the coming years. Also not without importance will be the increasing appetite for risk among global players, which is a post-crisis phenomenon on the financial markets around the globe.

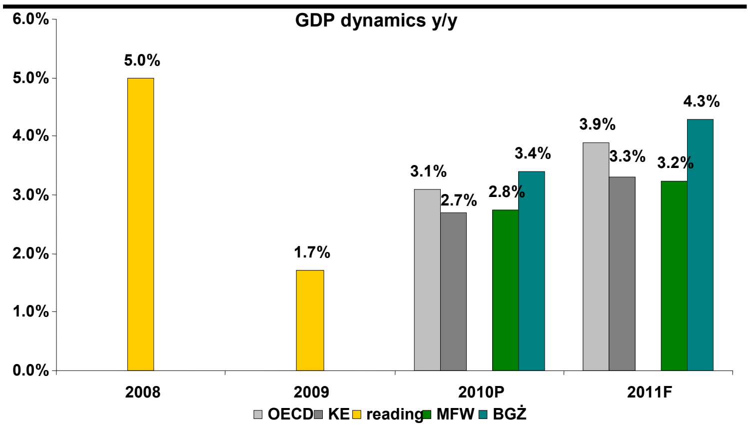
Another important conclusion is the fact that the CEE region still enjoys significant interest of global investors that could attract capital from all over the world. Certainly, the fact of dynamic economic growth of the countries in this region is also very important, and causes investment prospects to be even more attractive. While another factor is the structure of investors supplying capital to VC and PE funds. In case of Poland, retirement funds may have a big potential, because they have not been investing in private equity yet, but we can expect them to do so in the nearest future. The position of PE funds among individual investors should also improve, which will provide another source of capital.

The above factors create a highly advantageous environment for the market of VC and PE funds in Poland and the whole CEE region. We can expect assets of funds operating in this geographical area to grow dynamically over the next few years.

Macroeconomic environment and risk factors

The foundations of the region's economy are of crucial importance for the segment of PE and VC funds. At the moment, Poland belongs to the countries characterized by the highest growth dynamics of gross domestic product in all of Europe. This relatively high GDP growth is believed to continue in the coming years, distinguishing Poland against the rest of the region. This is sure to increase the interest of investors from around the world in the funds investing in our country, ensuring the supply of capital.

Graph: Forecast of GDP growth for Poland



Source: BM BGŻ.

Poland along with Czech Republic, Romania and Hungary is responsible for about 85% of the value of investments by VC and PE funds in the region of Central-Eastern Europe. It is also worth adding that such industries as communications, strict sciences, IT, consumer services and those connected with energy and environment enjoy the highest interest of these funds.

Bank policies concerning loans also have a very big influence on the development of the PE and VC segment, because the funds usually operate using financial leverage, which increases the returns and enables them to finance bigger investments. Year 2009 was highly unfavorable if this respect, while this year banks are expected to provide a much bigger stream of loans. It may positively stimulate the value of investments of the funds and have a positive effect on the whole segment.

The last factor that should be mentioned as an important one for the VC and PE market is the current situation in the companies and their valuations. At the end of the year 2008 and beginning of 2009 financial results of companies were significantly impaired, many times leading them to the brink of profitability. Meanwhile, companies from the non-public market resisted the plunge for quite some time, therefore making it impossible to execute acquisitions due to significant discrepancies between the buyers and sellers. In spite of that, the value of transactions concluded in the year 2009 did not differ from that of previous years. Financial stability that should follow an economic upturn and a more reasonable approach of current owners the question of valuations should prove advantageous for VC and PE funds to make attractive investments and increase the global invested amount.

Risk factors

The investment in the shares of MCI Management is connected with various risk factors originating from two sources. First, it is the factor of value of assets being held by MCI. The majority are certificates of the funds managed by the company that undergo up to date, quarterly valuation. Hence the risk that these certificates may lose value in the event of a market downturn that will generate losses and cause a reduction of the net asset value of the company. Therefore, the prevailing bear market or even a deeper correction could cause a significant undervaluation of the company's stock. There is also a risk of investment failure when it comes to the new projects of the MCI funds. This could result in the investment certificates losing value and reducing the company's equity.

The second factor covers the aspect associated with managing assets and revenues connected with these activities. The amount of revenues depends most of all on the sum of assets collected for management, but it is impossible to reliably predict the rate of capital inflow to the funds managed by MCI. Therefore, there is a rather large dose of uncertainty when trying to forecast future results. Additional sources of revenue for the company are bonuses resulting from exceeding a certain level of profits for the given fund in a given year. In addition, this aspect cannot be forecasted, because it depends on many variables and it is impossible to determine how much this additional revenue will improve the actual results generated by the company.

While the prolonging of the financial crisis and the risk of going back to restrictive banking policies as well as low tolerance to risks could be a threat for the whole market of VC and PE funds, because it would surely limit the availability of assets for the funds. Another consequence of such an economic state would be the deterioration of the core businesses of portfolio companies, and in turn loss of their value.

These are important factors that should be considered when deliberating an investment in the shares of MCI Management. Materialization of even a single one of the above risks may result in significant losses; that is why such an investment bears high risk.

Tables and forecasts (selected items)

Table: Balance sheet

(million PLN)	2007	2008	2009	2010F	2011F	2012F	2013F
Assets	**236.5**	**300.0**	**333.7**	**445.9**	**550.6**	**669.9**	**809.6**
Fixed assets	**199.5**	**275.1**	**267.8**	**407.5**	**496.5**	**612.3**	**745.3**
Financial assets	78.6	245.4	259.4	399.1	488.1	603.9	736.9
Working assets	**37.0**	**24.9**	**65.9**	**38.4**	**54.0**	**57.6**	**64.3**
Financial assets	0.8	0.3	53.6	0.0	0.0	0.0	0.0
Cash	7.3	8.1	1.1	27.2	42.8	46.4	53.0
Liabilities	**236.5**	**300.0**	**333.7**	**445.9**	**550.6**	**669.9**	**809.6**
Equity	**154.6**	**208.0**	**266.0**	**352.9**	**429.5**	**522.7**	**632.5**
Share capital	40.5	44.7	47.3	51.9	51.9	51.9	51.9
Reserve capital	28.8	134.6	163.9	227.0	290.5	367.1	460.3
Other capital	3.5	5.4	13.2	13.2	13.2	13.2	13.2
Net profit	80.4	21.6	44.4	63.5	76.6	93.2	109.8
Liabilities and provisions	**81.9**	**92.1**	**67.7**	**93.0**	**121.1**	**147.2**	**177.1**
Long-term liabilities	66.7	22.7	54.1	66.9	89.3	110.3	134.1
Short-term liabilities	15.1	69.4	12.5	25.1	30.7	36.0	41.9
including interest liability	*71.1*	*90.7*	*66.2*	*91.8*	*119.9*	*146.1*	*175.9*

Source BM BGŻ. *F - forecast of BM BGŻ*

Table: Profit and loss

(million PLN)	2007	2008	2009	2010F	2011F	2012F	2013F
Total revenue	**11.8**	**1.1**	**8.8**	**13.1**	**20.3**	**30.0**	**36.9**
change y/y	*-87.1%*	*-90.7%*	*698.7%*	*49.5%*	*54.0%*	*48.1%*	*23.0%*
Own cost of sale	**7.8**	**0.3**	**1.7**	**2.6**	**3.9**	**5.7**	**6.8**
Gross profit on sales	**4.0**	**0.8**	**7.1**	**10.5**	**16.3**	**24.3**	**30.1**
Gross margin on sales	*34.0%*	*76.1%*	*80.4%*	*80.0%*	*80.5%*	*81.0%*	*81.5%*
Cost of sales	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Cost of general management	16.5	7.1	5.4	4.5	4.5	4.2	4.5
Profit (loss) on sales	**-12.9**	**-6.2**	**1.8**	**6.0**	**11.9**	**20.1**	**25.6**
Sale of subsidiaries	57.3	-1.0	7.3	0.0	0.0	0.0	0.0
Result of investment	34.5	40.7	42.2	62.6	71.8	83.0	96.6
EBIT	**74.9**	**31.6**	**53.2**	**68.6**	**83.7**	**103.0**	**122.2**
Financial activities balance	0.4	-6.4	-7.5	-4.9	-6.0	-7.4	-9.3
Gross profit (loss)	**75.3**	**25.1**	**42.4**	**63.7**	**77.7**	**95.6**	**112.9**
Corporate income tax	6.6	-4.3	-2.5	0.2	1.1	2.4	3.1
Net profit (loss)	**80.0**	**21.2**	**44.4**	**63.5**	**76.6**	**93.2**	**109.8**

Source: BM BGŻ. *F - forecast of BM BGŻ*

Table: Statement of cash flows

(million PLN)	2007	2008	2009	2010F	2011F	2012F	2013F
Flows from operating activities	**-17.4**	**-7.4**	**-2.4**	**6.0**	**11.7**	**19.1**	**24.1**
Net profit	80.0	21.2	42.0	63.5	76.6	93.2	109.8
Depreciation	0.0	0.0	0.3	0.1	0.2	0.2	0.2
Interest	0.0	-0.1	0.0	4.9	6.8	8.7	10.7
The result on investment activities	-88.5	-38.5	-49.6	-62.6	-71.8	-83.0	-96.6
Flows from investment activities	**-46.8**	**-10.0**	**5.6**	**-0.3**	**-17.3**	**-33.0**	**-36.6**
Sale of subsidiaries	90.6	5.9	10.0	0.0	0.0	0.0	0.0
Financial investments	-130.7	-31.8	-8.8	0.0	-17.2	-32.8	-36.4
Flows from financial activities	**60.7**	**17.5**	**-10.2**	**20.4**	**21.2**	**17.4**	**19.2**
Issue of shares	1.3	7.6	0.4	0.0	0.0	0.0	0.0
Net loans and bonds	60.2	14.6	-2.0	25.6	28.1	26.2	29.8
Interest	-0.1	-0.5	-4.7	-4.9	-6.8	-8.7	-10.7
Change in the balance of cash flows	**-3.5**	**0.1**	**-7.0**	**26.1**	**15.7**	**3.6**	**6.6**
Cash:							
beginning of period	**8.6**	**7.3**	**8.1**	**1.1**	**27.2**	**42.8**	**46.4**
end of period	**7.3**	**8.1**	**1.1**	**27.2**	**42.8**	**46.4**	**53.0**

Source: BM BGŻ. *F- forecast of BM BGŻ*

Table: Selected financial indicators

	2007	2008	2009	2010F	2011F	2012F	2013F
ROA	33.8%	7.1%	13.3%	14.2%	13.9%	13.9%	13.6%
ROE	52.0%	10.4%	16.7%	18.0%	17.8%	17.8%	17.4%
debt/assets	32.7%	25.0%	20.0%	20.6%	21.8%	21.8%	21.7%
debt/equity	50.0%	36.0%	21.9%	23.7%	26.0%	26.4%	26.5%
Interest/EBIT	0.0	0.0	0.1	0.1	0.1	0.1	0.1

Source: BM BGŻ. *F - forecast of BM BGŻ*

Table: Indicators for current price

	2007	2008	2009	2010F	2011F	2012F	2013F
EPS	1.97	0.52	0.98	1.22	1.47	1.79	2.11
DPS	-	-	-	-	-	-	-
Dividend yield	-	-	-	-	-	-	-
BVPS	3.82	5.14	5.85	6.79	8.26	10.06	12.17
P/E	3.7	13.8	7.4	5.9	4.9	4.0	3.4
P/BV	1.9	1.4	1.2	1.1	0.9	0.7	0.6
P/Assets under management	-	-	0.17	0.10	0.07	0.05	0.04
EV/EBIT	0.74	1.75	1.04	0.81	0.66	0.54	0.45
EV/Assets under management	-	-	0.17	0.10	0.07	0.05	0.04

Source: BM BGŻ. *F - forecast of BM BGŻ*

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- **Buy** - expected rates of return on investment is at least 10%;
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The methods used and applied herein are based on the methods and models described and widely used in industry writing. Using them requires a large number of parameters, among others interest rates, exchange rates, future profits, cash flows and many others. These parameters are subject to change over time, and may differ from those adopted in the valuation both subjectively and substantially. Every valuation depends on the value of input parameters and is sensitive to their exchange.
DCF valuation: the DCF method is based on expected future discounted cash flows. Its advantages include considering for future changes in free cash flows and the monetary cost over time. Its disadvantages are in large number of parameters that need to be estimated at the sensitivity of the valuation to any change in those parameters.
Comparative valuation: this type of valuation is based on comparing market indicators of the valuated company with the indicators of other comparable companies. Its advantages include a lower number of parameters compared to the DCF method and a relative reference to market indicators of selected companies. Its disadvantage is mainly the problem of selection of the companies to be compared and its market effectiveness.
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