

# IS Private Equity

Strong results supported by profitable exits

Full-year results update

Investment companies

**IS Girisim (ISGSY) recorded its strongest ever set of full-year results in 2012. Two exits in 2012 maintained the successful track record of fund realisations from investments, the best measure of its success in private equity portfolio management. This brings the total number of completed exits to nine, representing an IRR of 23% in US\$ terms. It has also started negotiations for the sale of Aras Kargo. ISGSY has proposed a FY12 dividend of TRY17m, which equates to a yield of c 9%, keeping it as one of the highest-yielding companies on the Istanbul Stock Exchange. Well-timed exits continue to bolster ISGSY's already strong balance sheet, providing ISGSY with ample cash to capitalise on investment opportunities.**

Cumulative returns	Price total return (%)	NAV total return (%)	LPX Direct (%)	ISE 100 Index (%)
One year	43.8	43.0	25.7	41.0
Three years	136.1	52.0	55.7	61.5
Five years	482.6	92.4	12.2	146.6
Seven years	189.6	153.0	37.3	133.3

Source: ISGSY, Bloomberg. Note: LPX Direct is a global index of listed private equity companies that pursue a direct private equity investment strategy. All data calculated in TRY. NAV total return is adjusted for inflation, but not marked to market. Data as at 31 March 2013.

## Profitable exits drive performance

Four of ISGSY's investments are consolidated into the group consolidated accounts (three where it owns a majority and one where it owns a minority but exercises control). Excluding these, ISGSY's underlying profit before tax increased 15% to TRY48.4m due to the two realisations (IFRS adjusted realised gain TRY25.4m) and the strong performance of liquid assets (TRY20.8m). The two exits generated an average cash exit multiple of 1.9x, while its sizeable position in government bonds representing liquid cash reserves benefited from falling interest rates.

## Dividend payments

ISGSY has paid regular but variable dividends over the last six years from underlying recurring profits supplemented by exit gains. Having already paid a TRY7.4m cash dividend in January 2013 from the proceeds of the HAVAS exit, ISGSY is proposing to pay an additional TRY10.1m cash dividend on 8 May 2013, representing an aggregate c 9% dividend yield for FY12. ISGSY expects to continue to distribute a large part of all realised profits and distributable assets each year through dividends or bonus issue.

## Valuation

Following its recent positive performance, ISGSY's shares now trade at a 10% discount to its NAV, which is inflation adjusted but does not mark to market investment values (Sept 2012: 24% discount). We believe this reflects the strong track record of the company (nine exits to date, with an average US dollar IRR of 23%) and the potential in the remaining portfolio companies. In addition, ISGSY's FY12 dividend yield of 9.2% is 4.6x higher than the Turkish average of 2.0%.

2 May 2013

**Price** **TRY3.28**  
**Market cap** **TRY190m**

NAV per share*	TRY3.60
* Last published 31 Dec 2012	
Discount to NAV	10%
Shares in issue	58.0m
Free float	31.2%
Code	ISGSY
Primary exchange	ISE

## Share price performance



%	1m	3m	12m
Abs	5.1	28.6	35.2
Rel (local)	5.6	19.7	(5.7)
52-week high/low	TRY3.3	TRY1.8	

## Business description

IS Private Equity (ISGSY) is a listed private equity fund, which invests directly in Turkey's growing mid-cap private companies.

## Next events

AGM May 2013

## Analysts

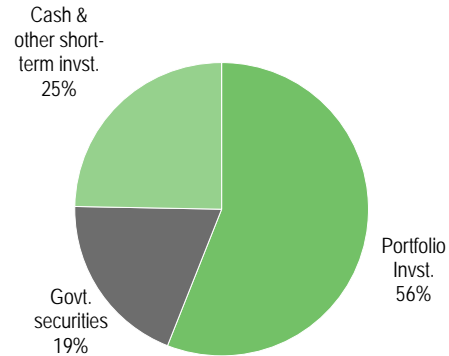
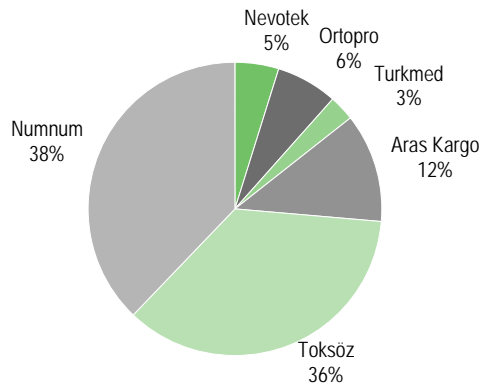
Jonathan Goslin +44 (0)20 3077 5765  
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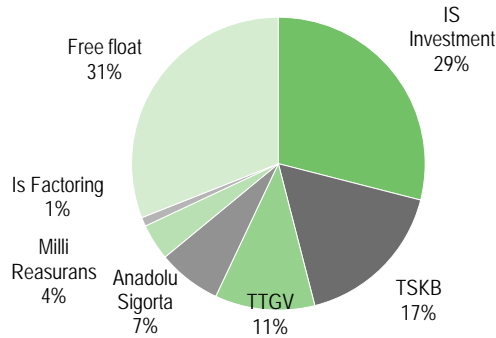
[Edison profile page](#)

### Exhibit 1: IS Private Equity at a glance

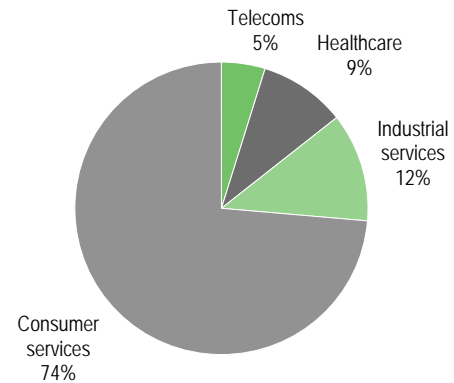
Investment objective and fund background		Recent news			
ISGSY was established in 2000 to invest in Turkey's growing mid-cap private companies.		December 2012 – Istanbul Food & Beverage Group investment announcement. November 2012 – Toksoz Spor investment announcement.			
Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	May 2013	Ongoing charges	3.8%	Group	IS Private Equity
H1 results	Est. Aug 2013	Net gearing	Net cash	Manager	Team managed
Year end	December	Annual mgmt fee	N/A	Address	İş Kuleleri Kule 2, Kat:2 - 34330
Next dividend	May 2013	Performance fee	N/A		Levent - Istanbul - Turkey
Launch date	2000	Company life	Unlimited	Phone	+90 0212 325 17 44
Wind-up	N/A	Loan facilities	N/A	Website	http://www.isgirisim.com.tr/EN/
Investment portfolio (as at 31 December 2012)			Total portfolio breakdown (as at 31 December 2012)		



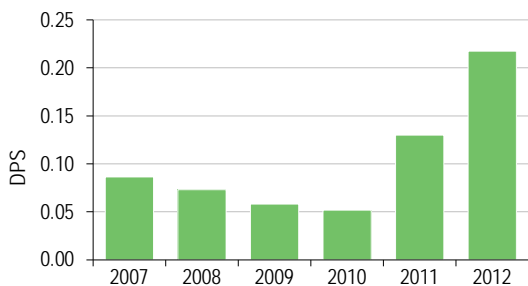
### Shareholder base (as at 31 December 2012)



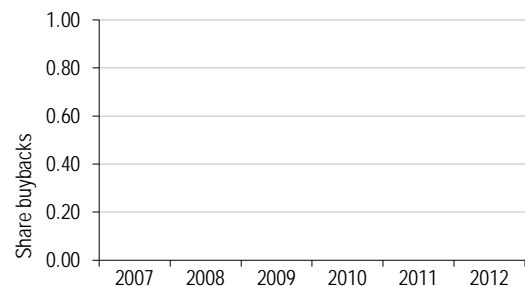
### Investment sector breakdown (as at 31 December 2012)



### Dividend history



### Share buyback history



Source: ISGSY, Edison Investment Research. Note: Dividend history has been adjusted to account for the 15% bonus issue in 2012.

## Full-year update

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### Portfolio activity

ISGSY has continued to be active in the Turkish private equity market, having made two new investments (sporting goods retailer and wholesaler Toksoz Spor and restaurant chain NumNum) and completed two exits (ODE Yalitim, Havas) during 2012. This brings the total number of completed exits to nine and represents c 30% of all deals completed in the Turkish private equity market between 2002 and 2012. These exits have generated an average IRR of 23% in US\$ terms.

In March 2012, ISGSY sold its 17% stake in ODE Yalitim, an insulation materials manufacturer, for \$10.5m, generating a 17.0% IRR and 2.1x cash multiple. Over the last four years, ODE Yalitim has grown revenues by 170% (US\$), increased employees by 65% and doubled exports (US\$).

In August 2012, ISGSY agreed to sell its 6.7% position in Havas back to TAV Airports Holding (the majority shareholder which was acquired by Aéroports de Paris Group) for €15.2m. Using exchange rates at the closing date, this equates to a 26.7% IRR and c 1.8x cash multiple in US\$ terms. Havas is Turkey's first and biggest ground-handling services corporation, which currently serves 23 airports/airdromes. Since 2009, Havas has increased the number of aircraft served by c 57%, and the number of countries from two to five.

In November 2012, ISGSY acquired a 58.5% stake in Toksoz Spor ([www.toksozspor.com](http://www.toksozspor.com)) at a cost of TRY23.9m. Toksoz Spor is a leading sporting goods wholesaler and retailer in Turkey. The group has historically been focused on the Turkish wholesale market, but ISGSY has identified the growing opportunity in the Turkish retail market. The key driver is Turkey's demographic structure, which is dominated by the young and middle-aged population, who tend to wear more sporting clothing, and it is also supported by the rising awareness of the importance of physical exercise. ISGSY has reorganised the company and established new management through the leadership of the former CEO of Nike Turkey and CEMEA Region, Zafer Parlar, who has a 10% stake in Toksoz Spor, to accelerate the expansion programme, both on the high street and online, through its burgeoning e-commerce business ([www.sportive.com.tr](http://www.sportive.com.tr)).

In December 2012, ISGSY acquired a 61.7% stake in Istanbul Food & Beverage Group, the parent company of Mikla and Num Num restaurants, at a cost of TRY27.0m. The group has been able to differentiate itself from competitors by its corporate structure, attractive price entry points, focus on quality and innovative ideas, which have enabled it to excel in different market segments. By partnering with ISGSY, the group is intending to accelerate its expansion programme throughout Turkey and reap the benefits from economies of scale as a result.

### Financial results excluding consolidated investments

Unlike European private equity funds operating under IFRS, ISGSY is prevented by the Capital Markets Board of Turkey from marking to market, or fair value accounting, its investment portfolio. Because of the historically high level of inflation in Turkey, it does inflation adjust carrying book values, but we believe this does not reflect the full value of the portfolio as evidenced by regular exits above carrying value. Viewing ISGSY as an investor is further complicated by its need to consolidate a number of investments in which it holds a majority (Nevotek, Toksoz Spor and Numnum), or in one case (Ortopro), where it holds a minority position but exercises control. In 2011, only Nevotek was consolidated. Ortopro was consolidated from the beginning of 2012 and the investments Toksoz Spor and Numnum (late in 2012) will generate additional changes in the consolidated P&L through 2013. The consolidation of operating subsidiaries introduces a number of revenue and cost items, which would not normally be seen on the accounts of a private equity fund. We exclude these figures in our analysis so that we can identify the underlying performance of the fund.

**Exhibit 2: Segment reporting**

	2011			2012		
	Private Equity	Subs	Consolidated	Private Equity	Subs	Consolidated
Revenue	62.0	14.0	76.0	54.2	51.1	105.2
Cost of goods sold	(15.2)	(3.7)	(18.9)	(28.8)	(26.6)	(55.4)
Gross profit	46.7	10.3	57.0	25.4	24.5	49.9
Operating expenses	(6.5)	(8.1)	(14.5)	(7.7)	(22.0)	(29.7)
Net other income	0.1	(2.6)	(2.6)	5.1	(0.2)	4.9
Operating profit	40.3	(0.4)	39.9	22.9	2.2	25.1
Net finance income	4.6	1.9	6.6	20.2	(3.6)	16.6
Share in net profit / (loss) of equity investments	(2.8)	0.0	(2.8)	5.4	0.0	5.4
Underlying PBT	42.1	1.6	43.7	48.4	(1.4)	47.0

Source: Company data, Edison Investment Research

Although 2012 was a strong year for realisations, proceeds were down on 2011. Even so, it was a record year for profits due to strong gains (in a declining interest rate environment) from its position in short-term liquid funds. Realisation proceeds were TRY54.2m pa (ODE Yalitim: TRY18.8m; Havas: TRY35.1m) versus TRY62.0m in 2011 (Dr.F.Frik: TRY54.4m and Probil: TRY7.3m). Gross profit, which mainly represents realisation profits from Havas and Ode Yalitim, was 46% lower TRY25.4m. Operating expenses increased 19% representing a total expense ratio (total operating expenses/average shareholders' equity excluding minority interests) of 3.8%.

**Exhibit 3: Total expense ratio**

	2010	2011	2012
Shareholders' equity excluding minority interests	137.2	170.4	228.6
Average shareholders' equity excluding minority interests	132.7	153.8	199.5
Operating expenses attributable to private equity	(4.4)	(6.5)	(7.7)
Total expense ratio	3.3%	4.2%	3.8%

Source: Company data, Edison Investment Research

With an increase in net investment income from TRY6.6m to TRY16.6m and an increase in net other operating income of TRY4.9m, PBT increased 15% to a record IFRS adjusted TRY48.4m. We do not envisage this level of profitability from liquid investments to be sustained due to the lower level of interest rates. We estimate the yield to maturity of its existing portfolio could now be around 6%, implying around TRY3m of earnings in 2013 from its TRY52m invested in government bonds. Dividend-paying capacity in 2013 is thus dependent on the generation of adequate disposal gains. We are unable to forecast these, but believe it is highly likely given the company's track record, market circumstances and the mature position of some of the company's investments. ISGSY has already announced that it has started negotiations with Austria Post for the sale of its Aras Kargo stake (current inflation-adjusted value TRY18.8m as at 31 December 2012).

**Exhibit 4: Financial summary**

	TRYm	2008	2009	2010	2011	2012
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		26.4	8.2	17.1	76.0	105.2
o/w Sale of investments		--	--	5.9	61.7	53.9
Cost of Sales		(8.3)	(1.9)	(5.3)	(18.9)	(55.4)
o/w carrying value of realised investments		--	--	(1.7)	(15.2)	(28.8)
Gross Profit		18.0	6.4	11.8	57.0	49.9
Operating expenses		(7.1)	(8.9)	(11.0)	(17.0)	(24.8)
o/w general admin expenses		(5.2)	(6.0)	(6.9)	(9.5)	(19.1)
EBITDA		10.9	(2.5)	0.8	40.0	25.1
Operating Profit (before GW and except.)		10.9	(2.5)	0.8	40.0	25.1
Intangible Amortisation		(0.6)	(0.5)	(0.3)	(0.1)	(0.6)
Exceptionals		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		10.3	(3.0)	0.5	39.9	25.1
Share in net profit / (loss) of equity investments		(1.4)	(4.8)	3.3	(2.8)	5.4
Net Interest		11.2	16.0	8.1	6.6	16.6
Profit Before Tax (norm)		20.7	8.7	12.1	43.8	47.6
Profit Before Tax (FRS 3)		20.1	8.2	11.8	43.7	47.0
Tax		0.0	0.0	0.0	(0.1)	0.1
Profit After Tax (norm)		20.7	8.7	12.1	43.6	47.7
Profit After Tax (FRS 3)		20.1	8.2	11.8	43.6	47.1
Average Number of Shares Outstanding (000s)		58.0	58.0	58.0	58.0	58.0
EPS - normalised (TRY)		0.35	0.15	0.21	0.73	0.80
EPS - FRS 3 (TRY)		0.34	0.14	0.20	0.73	0.79
Dividend per share (TRY)		0.07	0.06	0.05	0.13	0.22
Cash exit multiple on realisations		--	--	3.5	4.1	1.9
Total expense ratio - non consolidated		--	--	-3.3%	-4.2%	-3.8%
Operating Margin (before GW and except.) (%)		41.5	(30.5)	4.6	52.7	24.4
<b>BALANCE SHEET</b>						
Fixed Assets		42.1	36.7	54.2	51.4	123.3
Intangible Assets		1.0	0.5	0.1	0.0	29.4
Tangible Assets		0.2	0.1	0.1	0.2	11.2
Investments		40.9	36.0	53.9	51.1	23.6
Other		0.0	0.0	0.0	0.0	59.1
Current Assets		84.6	94.7	86.4	125.0	249.2
Stocks		0.0	0.1	0.2	0.3	41.2
Debtors		7.8	7.9	8.7	9.0	66.0
Cash		12.3	9.5	14.4	40.2	40.8
Financial investments		64.5	77.3	63.1	75.6	101.2
Current Liabilities		(2.3)	(2.3)	(2.0)	(4.1)	(91.2)
Creditors		(1.7)	(1.1)	(1.4)	(2.4)	(40.4)
Short term borrowings		(0.6)	(1.2)	(0.6)	(1.8)	(50.8)
Long Term Liabilities		(0.3)	(0.1)	(0.4)	(0.7)	(30.5)
Long term borrowings		(0.2)	(0.0)	(0.2)	(0.1)	(20.8)
Trade payables		0.0	0.0	(0.1)	(0.1)	(2.8)
Other long term liabilities		(0.0)	(0.0)	(0.1)	(0.5)	(6.9)
Shareholders Equity		124.1	129.0	138.2	171.5	250.9

Source: IS Private Equity, Edison Investment Research

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