

# IS VENTURE CAPITAL

## Understanding the culture of venture

- SME focus with high return targets...** Is Venture Capital Investment Trust is a leading venture capital firm with high growth investments like Nevotek in IT, Beyaz Filo in fleet rent, Step Hali in branded carpet retail. The company targets SMEs with an enterprise value of US\$10-80 mn, and aims to generate a minimum IRR of 20% from its investments.
- Successful exits so far...** Is Venture Capital performed two significant exits in 2006 and 2007 by selling the shares back to founding shareholders. Is Venture sold 29.75% of Tuyap back to Fuar Destek Hizmetleri for US\$10.8 and 66.3% of Cinemars to Mars Entertainment group for US\$19.4 mn, implying an IRR of 45.8% and 30.25%, respectively.
- Enjoying tax exempt status...** Venture Capital is exempt from corporate and income tax according to CMB regulations.
- Discount to NAV widened to 29%...** Is Venture Capital underperformed the market by 24% YtD and is now trading at a 29% discount to its current NAV, versus its historical discount of 20% since year-end 2004.
- Heavily capitalized to make further investments...** Companies invested imply a fair value of US\$27 mn and comprise 28% of total NAV, whereas cash and marketable securities account for 70% of the current NAV. In other words, the company is heavily capitalized to make further investments.
- Attractive valuation...** Our sum-of-the parts valuation suggests a target valuation of US\$94 mn, and referring to a 42% upside potential to current NAV.
- Risks...** The main risk is the limited information and lack of transparency in unlisted invested companies. Besides, the venture capital investments hold exit risk.

## EQUITY RESEARCH

## BUY

Current Price	YTL3.92
Current Mcap (mn)	US\$67.0
12-mth Target Price	YTL5.55
Target Mcap (mn)	US\$94.4

12-mth Forecast Returns (US\$)	
Dividend Yield	1%
Capital Appreciation	41%
12-mth Total Return	42%

Stock Data		
Ticker	ISGSY.IS	ISGSY.TI
Sector	Venture Capital	
# of Shares (mn)	22.5	
3M Avg. Trd. Vol. (mn)	US\$0.7	
52-week Range	YTL3.30 -	YTL4.56

Market Data	
ISE 100	45,860
YTL/US\$	1.3166

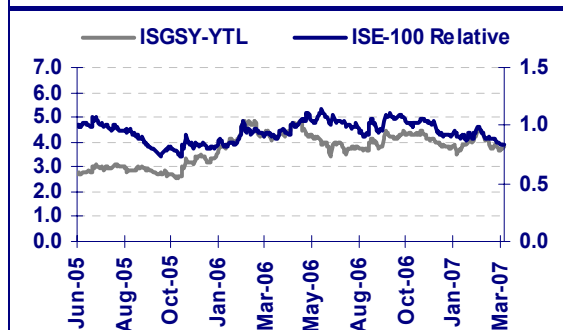
Shareholder Structure	
Is Yatirim Menkul Degerler	20%
Turkiye Teknoloji Gelistirme Vakfi	11%
TSKB	17%
Others	12%
Free Float	40%
Foreign Holding as % of Free Float	15%

Financials (US\$ mn)	2006	2007E	2008E
Net Sales	29	7	3
% ch yoy	3%	-74%	-60%
EBITDA	10	4	-1
% ch yoy	7%	-60%	n.m.
Net Income	11	7	1
% ch yoy	37%	-32%	-85%

Margins (%)	2006	2007E	2008E
Operating Margin	35%	55%	n.m.
EBITDA Margin	36%	56%	n.m.
Net Profit Margin	37%	97%	37%

Financial Ratios	2006	2007E	2008E
P/E (US\$, x)	6.4	9.3	61.2
EV/EBITDA (US\$, x)	7.7	18.1	n.m.
EV/Sales (US\$, x)	2.8	10.2	23.6

Price Performance	1M	3M	YTD	YoY
US\$ Absolute	-4%	-5%	9%	1%
ISE-100 Relative	-5%	-13%	-24%	-23%



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## INVESTMENT POSITIVES

**One of the least tapped markets in Europe...** Turkish venture capital market attracted only by a US\$700 mn investment of private equity funds in 2006, which promises a significant growth potential relative to global markets. The size of VC/PE funds in Turkey equaled US\$1.5 bn this year, whereas the US venture backed disclosed deals in 4Q06 amounted to US\$3.9 bn. Coupled with the privatization efforts, the limited equity and long-term debt financing increased the demand for private capital in Turkey.

**Is Venture Capital to focus on companies with an enterprise value of US\$10-80 mn and targets at least 20% IRR...** The Turkish economy significantly offers higher long-term prospects relative to developed markets; therefore, the venture capital and private equity funds have increased their exposure lately in Turkey. The Mey Icki deal of Texas Pacific Group (TGP) in 2006 supports the eagerness of multinationals on Turkish companies. Of course, the venture capital may come in various sizes; however, Is Venture management has been focusing on SMEs with respectable annual turnovers until now. Raising financing for SMEs with a size of US\$10-80 mn led Is Venture management to become a sole venture capital in that enterprise range.

**Successful exit transactions by Is Venture Capital in 2006 & 2007...** Is Venture Capital experienced the shortest partnership ever seen in Turkish Venture Capital Market. Tuyap and Is Venture Capital partnership were concluded in 14 months. On 16 February 2007, Is Venture sold 29.75% of shares back to Fuar Destek Hizmetleri AS, parent shareholder of Tuyap, for US\$10.79 mn, implying a dollar based compounded annual return of 45.75%.

Is Venture Capital concluded its investments on Cinemars on August 2006 by selling back its stake owned to parent stakeholder of Cinemars, Mars Entertainment Group, at US\$19.4 mn, implying a dollar based compound annual return of 30.25%.

**Selective investment strategy...** With a highly selective investment strategy so far, Is Venture Capital had an access to high IRRs over the medium term. Hence, being selective enabled Is Venture Capital not to compete with high capitalized international funds, and to focus on SMEs with an enterprise value of US\$10-80 mn.

**Future outlook in Venture Capital market is promising...** Structural reforms, EU relations and economical growth in Turkey offer a high growth potential in venture capital market. Despite double elections in 2007, the ongoing privatization efforts of government and stable growth in Turkey attract foreign investors, accordingly, the share of venture capital and private

equity transactions in merger & acquisitions increased to 17% in 2006 from 4% in 2005 according to Ernst&Young 2006 Merger&Acquisitions report.

**New investments are on its way in 2007...** Is Venture Capital's management is planning to make investments at a range of US\$15-20 mn in 2007 especially to SMEs located in Istanbul, which have significant growth potential.

The fund recently announced that it signed a share purchase agreement with Ode Yalitim Sanayi to acquire 17.2% stake of the company for US\$5 mn. Ode Yalitim has been providing insulation services to its clients as a manufacturer since 1996. The company runs its operations at its five manufacturing facilities with a covered area of 30,000 sqm. The company has regional offices in Ankara, Diyarbakir, Bursa, Izmir, Konya and Samsun.

**Exit opportunities...** The total size of 300 companies trading on Istanbul Stock Exchange (ISE) equals to US\$198 bn. Together with a 3M average daily volume of US\$1.06 bn, capital market indicates that there is sufficient exit opportunities for multinational corporations that are evaluating M&A activities in Turkey.

**Appealing Valuation...** Our sum-of-the parts valuation stands at US\$94 mn, implying a 42% upside potential to NAV as of yesterday's closing.

## RISKS

**Limited data and information flow from invested companies...** Since most of the invested companies are unlisted, the detailed information on financials, strategies and future outlook of invested companies are much limited relative to ISE companies. Please note that Novetek is the only company that is fully consolidated by Is Venture Capital following the Cinemars exit. In addition, venture capital firms do not have to follow any rule of CMB to announce any information on invested companies.

**34% of total short-term investments (marketable securities + deposits) are fx denominated as of March 2007...** Like other venture capital firms, Is Venture Capital allocate some portion of its cash to short term investments, in which 34% of its short term investments are fx dominated. Therefore, the short –term investments of Is Venture Capital carries risks if YTL depreciates against other currencies.

**Unrealistic return expectations...** The unrealistic return expectations of investors is one of the main reasons for cash inflow to venture capital market which could be much higher than the sector potential, resulting in negative returns.

**The liquidation risk of invested companies...** Although we do not see a liquidation risk for the companies that Is Venture had invested so far, it should be noted that the companies often carry liquidation risk. Vakif Venture Capital, another listed venture capital firm in Turkey, had invested in Teknoplazma AS, Inova Biyoteknoloji AS and Orta Dogu Yazilim Hizmetleri AS since 1996, however, the first two announced their liquidation in 2005 and 2006, respectively.

**Exit risk at some point...** The venture capital firms globally prefer the exit activity to be materialized during the initial public offerings. Accordingly, venture capital's investments occasionally hold exit risk, if they could not find a way like IPO, strategic sales or sales back activity to end their investments.

## IS VENTURE CAPITAL VALUATION

We used sum-of-the parts method to value Is Venture Capital Investment Trust. This is because we should forecast the fair values of invested companies separately to reach the value of assets that Is Venture Capital holds. The invested companies perform their operations in various sectors, meaning different risk premiums and characteristics. We should also remind that the invested companies are unlisted, and only Nevotek is fully consolidated under Is Venture Capital financials.

Our sum-of-the parts valuation stands at US\$94 mn, implying a 42% upside potential to current NAV as of yesterday's closing.

### Is Venture Capital Investment Trust NAV

Business	Valuation Method	Fair Value US\$m n	Equity Share	Portfolio Value US\$m n	% of Total NAV
<b>Information Technology</b>					
Nevotek Bilisim Ses & Iletisim Sistemleri	DCF	6.8	88%	6.0	6%
Probil Bilgi Islem Destek & Danis. San.	DCF	41.5	10%	4.1	4%
<b>Communication Technology</b>					
Iletisim Teknoloji Danismanlik & Ticaret AS	DCF	9.4	35%	3.3	4%
<b>Retailing Sector</b>					
Step Halicilik	DCF	18.5	33%	6.1	6%
<b>Tourism Sector- Fleet Rental</b>					
Beyaz Filo Oto Kiralama	10% discount on transaction value of Docar	44.3	16%	6.9	7%
<b>Total Value of Invested Companies</b>		121		27	28%
Net Tangible Assets (US\$ mn)				0.1	
Net Intangible Assets (US\$ mn)				0.7	
Receivables (US\$ mn)				1.4	
Payables (US\$ mn)				0.1	
Inventories (US\$ mn)				0.0	
Cash&cash equivalents (US\$ mn) as of March 31				66	70%
Financial Debt (US\$ mn)				0.3	
<b>NAV US\$ mn</b>				94	
<b>NAV YTL mn</b>				125	
<i>Paid- in Capital</i>				22.5	
<b>NAV per Share</b>				5.55	
Current Price YTL				3.92	
Upside to NAV				42%	
Premium/ (Discount) to NAV				-29%	

## IS VENTURE CAPITAL CURRENT PORTFOLIO

Is Girisim Venture Capital Investment Trust Portfolio as of 31 March 2007				
Type of Assets included in Portfolio	Investment Date	Investment Amount (YTL mn)	Inflation Adjusted Inv. Amount (YTL mn)	Share in total portfolio (%)
<b>A. Long Term Investments</b>		<b>64</b>	<b>70</b>	<b>43.3</b>
<b>Probil AS</b>		<b>5</b>	<b>8</b>	<b>5.1</b>
1. Investment	15-Oct-02	5	8	4.8
2. Investment	23-Oct-03	0	0	0.2
<b>Iletisim Teknoloji AS</b>		<b>24</b>	<b>25</b>	<b>15.5</b>
1. Investment	27-Dec-02	3	4	2.6
2. Investment	22-Mar-04	0	0	0.1
Option		21	21	12.8
<b>Nevotek Bilisim AS</b>		<b>7</b>	<b>7</b>	<b>4.4</b>
1. Investment	30-Sep-03	1	1	0.5
2. Investment	01-Mar-04	1	1	0.4
3. Investment	22-Jun-04	1	1	0.4
4. Investment	27-Jun-06	2	2	1.2
5. Investment	20-Dec-06	1	1	0.6
Option		2	2	1.3
<b>Step Halicilik ve Magazacilik AS</b>		<b>5</b>	<b>6</b>	<b>3.8</b>
1. Investment	20-Jul-04	4	5	3.3
2. Investment	25-Apr-06	1	1	0.4
<b>Beyaz Filo Oto Kiralama AS</b>		<b>24</b>	<b>24</b>	<b>14.6</b>
1. Investment	13-Oct-06	6	6	3.7
Option		18	18	10.9
<b>B. Short Term Investments</b>		<b>91</b>	<b>92</b>	<b>56.7</b>
<b>Portfolio Value (A+B)</b>			<b>162</b>	<b>100.0</b>
<b>C. Liquid Assets</b>			<b>0.2</b>	
<b>D. Receivables (+)</b>			<b>0.0</b>	
<b>E. Other Assets</b>			<b>0.1</b>	
<b>F. Payables (-)</b>			<b>0</b>	
<b>G. Provisions for Options (-)</b>			<b>40</b>	
<b>Net Asset Value (A+B+C+D+E-F-G)</b>			<b>121</b>	
<b>Number of Shares</b>			<b>22.5</b>	
<b>NAV per Share (YTL)</b>			<b>5.4</b>	
Current Price YTL			3.9	
Premium (Discount) to NAV			-27%	

Is Venture Capital is trading at 27% discount to its current NAV according to its portfolio table as of March 31, 2007. It should be noted that based on CMB regulations, venture capital firms have to invest more than 50% of their portfolio into entrepreneur companies. However, the portfolio table as of March 2007 indicates that the long term investments share in total portfolio decreased to 43.3% following the latest exit from Tuyap. Therefore, Is Venture Capital applied to CMB on 20 February 2007 for a time extension of one year to increase the long term investments share in its total portfolio, meaning that new deals are on the way.

**Is Venture Capital-Historical Premium (Discount) to NAV**



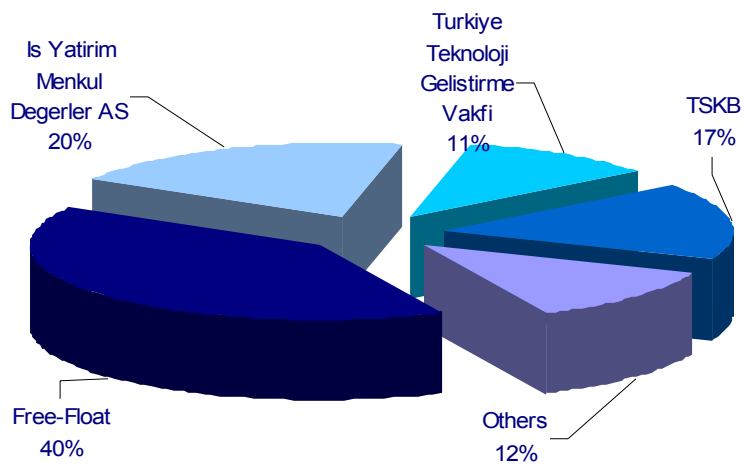
Is Venture capital is now trading at 27% discount to its NAV according to its portfolio table announced on March 31 relative to its historical discount of 20% since 31 December, 2004.

**COMPANY OVERVIEW**

Is Venture Capital Investment Trust was established back in 2000, and was supported by the World Bank in evaluation of possible investment opportunities in 2001. Is Venture Capital is also exempt from corporate and income tax according to CMB regulations.

Is Venture Capital, an indirect subsidiary of Isbank, was opened to public in 2004. Is Yatirim Menkul Degerler, is the main shareholder of the venture capital with 20% stake, which is followed by TSKB (first and largest privately owned investment and development bank in Turkey) with 17% stake as of 31 December 2006. 40.1% of the shares are on free-float on the ISE.

**Shareholder Structure as of 31 December 2006**



Source: Company

Turkiye Teknoloji Gelistirme Vakfi (TTGV) is the other shareholder of Is Venture Capital with 11% stake. TTGV, a non-profit organization, is one of the three foundations acting as a guardian angel of R&D companies. TTGV was established by 26 private sector companies, 6 public institutions and 10 umbrella organizations and 14 individuals with the support of World Bank for the purpose of increasing research and development activities of Turkish companies.

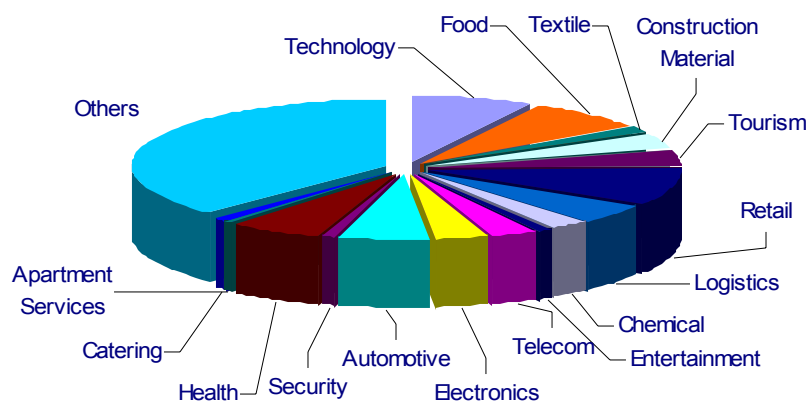
**INVESTMENT STRATEGY**

**Exploring opportunities in all industries...**Is Venture Capital had been broadly diversified with a focus on IT, retail, entertainment, tourism and telecom sector since its establishment. Although Is Venture Capital’s strategy is to invest in companies throughout their life cycle, the fund has been more focused on companies at their development stage with an enterprise value of more than US\$10 mn, for meeting the early stage or gate financing needs of the invested company. It should be noted that, Is Venture’s investment duration changes based on the project and its exit strategy. So far, Is Venture Capital had been followed the strategy of selling the shares back to founding shareholders.

**Strong deal flow...**Is Venture capital has been broadly analyzing companies from various sectors, such as health-care, construction materials, logistics, retail, automotive, tourism, catering, security, electronics etc.. Accordingly, 153 projects had been evaluated by Is venture capital in 2006, however, only one project had been assessed as valuable to invest.

**Investment decision criteria...** Is Venture Capital has determined its investment decisions based on ; i) growth potential of the sector and the company ii) attractive returns iii) operational profitability iv) competitive advantage v) management of the invested company vi) level of intangible assets vii) international expansion potential viii) market responsiveness ix) exit opportunities.

**Projects analyzed by Is Venture Capital in 2006 by Sector**



Source: Company



## IS VENTURE CAPITAL- INVESTED COMPANIES

Investments	Sector	Investment Date	Investment Amount (US\$ mn)	Stake owned (%)	
				2005/12	2006/12
<b>Probil AS</b>	Information Technology		<b>3.2</b>	10.0%	10.0%
1. Investment		15-Oct-02	3.0		
2. Investment		23-Oct-03	0.2		
<b>Iletisim Teknoloji AS</b>	Telecom Tech.		<b>16.9</b>	33.5%	35.0%
1. Investment		27-Dec-02	1.7		
2. Investment		22-Mar-04	0.1		
Option			15.0		
<b>Nevotek Bilisim AS</b>	Information Technology		<b>5.0</b>	75.0%	88.2%
1. Investment		30-Sep-03	0.4		
2. Investment		01-Mar-04	0.4		
3. Investment		22-Jun-04	0.4		
4. Investment		27-Jun-06	1.1		
5. Investment		20-Dec-06	0.7		
Option			2.0		
<b>Step Halicilik ve Magazacilik AS</b>	Retailing Sector		<b>3.5</b>	30.0%	33.0%
1. Investment		20-Jul-04	3.0		
2. Investment		25-Apr-06	0.5		
<b>Beyaz Filo Oto Kiralama AS</b>	Car rental		<b>16.8</b>	-	15.69%
1. Investment		13-Oct-06	4.0		
Option			12.8		
<b>Tuyap Holding AS **</b>	Tourism&Convention		<b>7.0</b>	29.8%	-
1. Investment		23-Dec-05	6.9		
2. Investment		28-Feb-06	0.1		
<b>Mars Sinema AS *</b>	Entertainment		<b>11.5</b>	66.3%	-
1. Investment		30-Jul-03	3.3		
2. Investment		29-Dec-03	1.1		
3. Investment		24-Sep-04	0.7		
4. Investment		29-Jun-05	6.5		

Source: Company

\* Sold all of its stake on 22 August 2006

\*\* Sold all of its stake on 16 February 2007

Is Venture Capital had invested US\$34 mn in seven different companies from various sectors until now, two of them being IT companies. Is Venture Capital has also a US\$29.8 mn option to buy additional stake of invested companies.

Before its IPO, Is Venture Capital made its initial investments in IT sector companies named Probil and Iletisim Teknoloji Danismanlik Ticaret (ITD) at US\$3 mn and US\$1.7 mn, respectively. Both companies are well specialized in integrated products and services.

Following the IPO, Is Venture Capital increased its exposure in venture capital sector with incoming demand from SMEs in Turkey. The US\$3.3 mn investment in movie theatre chain Cinemars was the most remarkable choice of Is Venture Capital in 2003. The venture capital also invested an additional amount of US\$8.2 mn to Cinemars before performing its successful exit in August 2006.

**Cinemars:** Established in mid 1980s by Menderes Utku and Muzaffer Yildirim, CineMars was structured itself with location based unique theatre concepts. The company managed to expand even in economic crisis by new

openings after 2001. Rather than cinema theatres, the group also provides services in restaurant, health club and night club businesses.

**Cinemars before Is Venture Capital...** Following the partnership of Muzaffer Yildirim, Cinemars made its first theater investment in Antalya Migros and reached a seat capacity of 989 with 8 screens. Cinemars owned three cinema theatres with 16 screens and 1,672 seat capacities as of July 2002 after its investments in Ritz Carlton Hotel (Istanbul) and Konak Pier (Izmir).

**Cinemars with Is Venture Capital...** Is Venture Capital signed a partnership agreement with Cinemars on 14 July 2003 and made its first investment at an amount of US\$3.3 on 30 July 2003. The latest cash injection of US\$6.5 mn on June 05 enabled Cinemars to purchase Cinemaxx for US\$13.6 mn from Tepe Group, one of the leading business groups providing construction to terminal management businesses. Following the transaction, Cinemars increased its seat capacity by 126% to 9,433 from 4,178 and the screens also increased to 61 from 36. Cinemars has been enjoying a market share of 16% after Cinemaxx purchase.

**Successful exit from Cinemars...** Is Venture Capital concluded its investments on Cinemars on August 2006 by selling back the shares to Mars Entertainment Group, the parent shareholder of Cinemars, for US\$19.4 mn, implying a dollar based compound annual return of 30.25%.

**Tuyap Tum Fuarcilik:** Tuyap Tum Fuarcilik was established in June 1979, and used Istanbul Sports & Exhibition Center and Marmara Hotel for the first exhibitions they organized. In March 1987, Tuyap decided to open Istanbul Exhibition Palace to meet the demand, and with increasing need for a modern exhibition center enabled Tuyap to open Beylikdüzü Fair and Congress Center in 1996, one of the largest privately owned exhibition center with 60,000 sqm covered area.

**Anatolia was the main target for Tuyap...** As the expansion was concluded in Istanbul, Tuyap showed its eagerness to expand its business by investing into Anatolian cities, where the demand has been increasing over time. Tuyap has been running its Bursa and Konya exhibition centers since 2002 and 2003 and opened its Adana exhibition Center in November 2006. Is Venture Capital's US\$6.9 mn cash injection into Tuyap in December 2005, enabled the company to add a new center to its exhibition portfolio.

**The shortest partnership ever experienced in Turkish Venture Capital Market...** Is Venture capital and Tuyap partnership was concluded only in 14 months beginning from 23 December 2005 with Is Venture Capital's US\$6.9 mn investment for 29.75% of company's shares. On 16 February 2007, Is Venture capital sold 29.75% of shares back to parent shareholder of Tuyap, Fuar Destek Hizmetleri AS for US\$10.79 mn, implying a dollar based compound annual return of 45.75%.

**Tuyap was the beneficiary side from this partnership by all means...**

Tuyap opened a new exhibition center in Adana with the support of Is Venture Capital, plus had a chance to restructure its corporate infrastructure and marketing strategy. Following the share purchase, the company management announced their intention to invest in Black Sea Region of Turkey. Tuyap, currently has 14k clients and around 2mn visitors.

**CURRENT INVESTMENT PORTFOLIO**

Is Venture Capital invested US\$4 mn to acquire 15.69% stake of Beyaz Filo, one of the leading car rental company in the sector, and also increased its stake in Novetek to 88% from 75% with a US\$1.1 mn investment in 2006.

Although there is no CMB rule for Is Venture Capital to announce its subsidiaries' financials quarterly, if not fully consolidated, we tried to value each subsidiary based on the company guidance to forecast the fair value of Is Venture Capital.

**ILETISIM TEKNOLOJIK DANISMANLIK AS (ITD)**

ITD is a system integrator specialized in payment methods (POS Terminals, Smart Card Readers), voice mail systems, and e-business solutions (e-payment, m-payment). The company mainly provides IT services especially to various companies in finance, telecom and retail sector, and was established in 1991. According to the market requirements and client's expectations, ITD converts its know-how into value added solutions and products.

**ILETISIM TEKNOLOJI DANISMANLIK**

**Description/Business Sector:** End-to-end business solutions in the area of payment systems and complementary technologies

**Deal Source:** Investment Bank

**HQ:** Istanbul

**Revenue Growth:** 37% CAGR (2001-2006)

**Chairman:** Coskun Ural

**CEO:** Coskun Ural

**Investment by Is Venture Capital:** US\$1.85 mn

**Investment Type:** Equity- Minority (34.98%)

**Investment Date:** 27/12/2002- 22/03/2004 (2 tranches)

**Status:** Continued growth in domestic market and neighbouring countries, subsidiary in Poland

*Source: Is Venture Capital*

The company has been introducing the most advanced technologies and services to Turkey and is the first in successfully implementing these products at Turkish corporations as depicted in the chart below;

ITD Products and Services	
Product	Sectors Served
<b>Voice Systems</b>	<b>Financial Institutions, telco carriers</b>
Call/ Contact Service	ISPs, e-comm co., manufacturing companies
<i>Interactive Intelligence</i>	
<i>Genesys</i>	
Interactive Voice Response Systems	
<i>Intervoice</i>	
<i>Interactive Intelligence</i>	
IVR: Natural Language Speech Recognition	
<b>Payment Systems</b>	<b>Banks and e-retailers</b>
Transaction Automation Systems	
<i>POS Terminals</i>	
<i>Shared POS Service</i>	
<i>Terminal Management System</i>	
<i>POS Network Solutions</i>	
<i>Smart Card Management</i>	
Fraud Management/Detection Solutions	
Anti- Money Laundering *	
Switch Solution	
Card / ITM / POS Management	
<b>Complementary Solutions</b>	<b>Media, marketing companies, banks for internet banking</b>
Magi Contact	
ITD SMS Gateway application	

\* Partner of Tonbeller, a software company with an international footprint

Source: Company

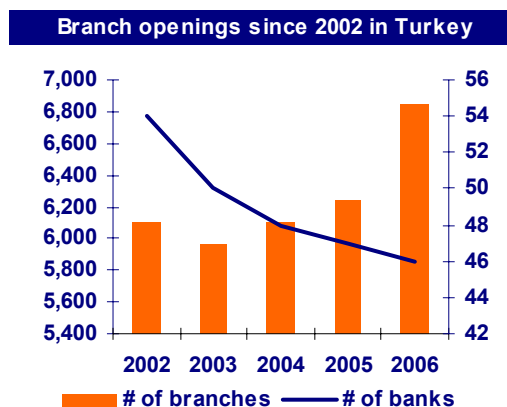
**ITD used Is Venture Capital’s investment to expand its operations into the European market...**

Is Venture Capital realized a US\$1.7 mn investment into ITD, in which ITD enlarges its operations in voice and payment systems internationally, especially in Middle East. Apart from its partners in Middle East, ITD Poland was established in 1995 in Warsaw, and served mainly to finance sector. Following its second investment on March 2004, Is Venture Capital increased its stake in ITD to 34.9%.

**Why Is Venture capital had invested in Iletisim Teknoloji Danismanlik..?**

**i) Growth potential of the finance sector...**

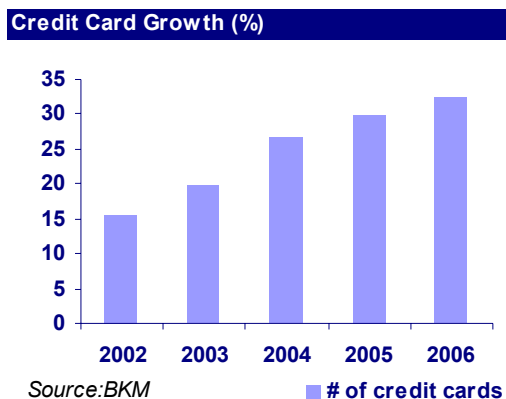
Increasing demand and competition in retail & consumer banking enabled ITD to focus on R&D, resulted in advanced innovations beyond customer needs. The increasing number of branch openings also helped ITD to add new clients in to its portfolio.



Source: TBB

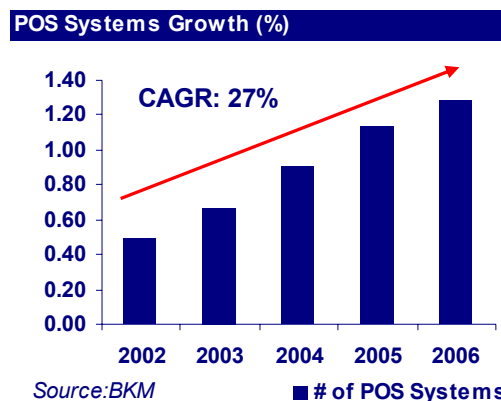
**ii) Rapid growth potential in IT sector...** Based on the favorable macroeconomic conditions in Turkey as well as increasing demand for IT products, the IT sector is expected to grow at a CAGR of 17.9% between 2003 – 2009.

**iii) The transformation of simple call-centers into contact centers...** The boost in credit card customers increased the need for contact centers. The total number of credit cards soared by more than 100% to 32mn in 2006 from 15mn in 2002.



**iv) CRM became the significant concept among Turkish banks...** Internet banking has been widely used in Turkey beginning from 2000. The total number registered clients using internet banking was increased by 23% to 17.4 mn in 2006YE from 14.1 mn in 2005YE. The immature characteristics of internet banking usage, indicating a significant business potential for ITD on internet banking products.

**v) Replacement of POS systems...** The replacement of POS Terminal Systems have been triggered the ITD's R&D activities and the number of POS software system solutions they sold in the sector.



## VALUATION

In order to forecast the fair value for Is Venture Capital, we used DCF method to find the values of invested companies. The DCF model of ITD implies a fair value of US\$9.4 mn, indicating Is Venture Capital's stake as US\$3.3 mn.

The DCF assumptions for Iletisim Teknolojik Danismanlik are as follows:

- We assumed top line growths in the forecast period to be at the range of between 12-15%.
- As a software development company, Iletisim Danismanlik uses the advantage of being an R&D company, thus its financials do not cover high capex figures.
- We forecast EBIT and EBITDA margin to be remained flat between 2007-2010.
- Employing a risk free rate of 7.5% and equity risk premium of 5%, we determined a cost of equity value of 12%. We have used a 2% perpetuity rate to calculate the terminal value of ITD.

ITD DCF Valuation	2007E	2008E	2009E	2010E
Net Sales	25.7	29.5	33.9	38.0
Cost Of Sales	-18.9	-21.5	-24.5	-27.5
Gross Profit/Loss	6.7	8.0	9.4	10.6
Operating Expenses	-5.4	-6.7	-7.9	-9.0
<b>EBIT</b>	1.3	1.2	1.5	1.5
+ depreciation&amortisation	1.0	1.1	1.2	1.3
<b>EBITDA</b>	<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	<b>2.8</b>
Taxation	-0.2	-0.2	-0.2	-0.2
Capex	0.7	0.7	0.7	0.7
Change in Working Capital	0.4	0.5	0.6	0.5
<b>Free Cash Flow YTL mn</b>	1.0	1.0	1.2	1.4
<b>Free Cash Flow US\$ mn</b>	0.7	0.6	0.7	0.8
PV of Free Cash Flow	0.6	0.5	0.6	0.6
Net Present Value	2.3			
Terminal Value	7.1			
Net Debt	0			
Target Value - US\$ mn	9.4			
Is Girisim Stake (%)	35%			
Is Girisim Stake - US\$ mn	3.3			
Sales Growth (%)	12%	15%	15%	12%
Gross Margin (%)	26%	27%	28%	28%
EBIT Margin (%)	5%	4%	4%	4%
EBITDA Margin (%)	9%	8%	8%	7%

## PROBIL BILISIM AS

Probil Bilisim, one of the largest system integrator of Turkey, was established in 1989 in Istanbul. The company ranked 4<sup>th</sup> among IT companies in terms of its software revenues in 2006. Probil has been focused on clients from various sectors and has been active in 51 cities of Turkey with its network

channels. The company has five customer focused subsidiaries named Avez, Akademi, Bizitek, Probil GmbH (Germany) and Probil Support Services. The main shareholder of Probil is EMEA Technologies Investment (ETI) with 42.8% stake, a private equity fund owned by EFG- Hermes which is the leading investment bank in Middle East. Is Venture Capital decided to invest in Probil with a US\$3 mn and US\$0.2 mn investments in 2002 and 2003, and became a shareholder of Probil with 10% stake.

In 2005 and 2006, Probil decided to focus more on providing CRM solutions to different companies from various sectors and increased its profitability. Probil started providing Emptor CRM solutions with L'oreal, and continued to provide solution packages to automotive industry services. The company also prepared the call center infrastructure for MNG Bank of Turkey. Probil has a market share of 5.1% in 2004, whereas the IT market leader was IBM with 15.1% share, followed by Meteksan with 13.2% in 2004 according to IDC data.

**Turkish IT market promises a high growth potential...** According to International Data Corporation (IDC), the Turkish IT market attained a growth rate of over 20% reaching the US\$2.4bn size in 2000; hence, IT market in Turkey will experience a CAGR of 17.9% and will reach to US\$4.97 bn in 2009 from US\$1.85 bn in 2003.

In 2004, the share of IT services in total market reached 20% (US\$473 mn), whereas the software package market constituted 13% (US\$316 mn) of total IT market. According to IDC report, Turkish IT services market will experience a CAGR of 13% between 2004-2009 and will reach to US\$870 mn. Software package market, on the other hand, will attain a CAGR of 14% and will realize as US\$609 mn.

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### PROBIL

**Description/Business Sector:** Largest independent system integrator in Turkey

**Deal Source:** Propriety

**HQ:** Istanbul

**Revenue Growth:** 25% CAGR (2001-2006)

**Chairman:** Turgut Gursoy

**CEO:** Hakan Arirturk

**Investment by Is Venture Capital:** US\$3.2 mn

**Investment Type:** Equity- Minority (10%)

**Investment Date:** 15/10/2002- 23/10/2003 (2 tranches)

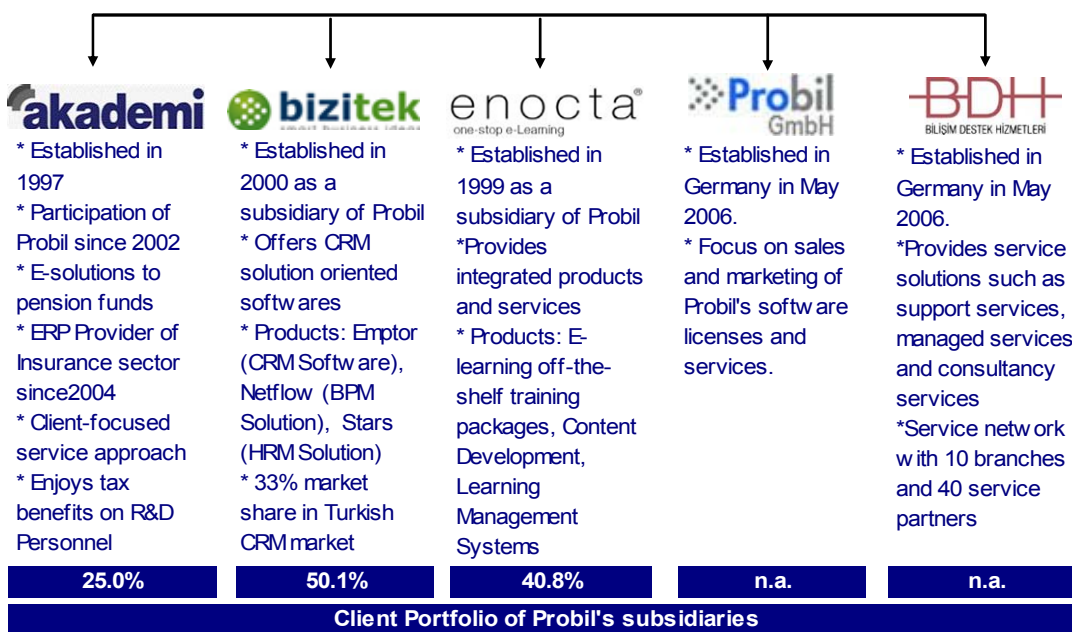
**Status:** Looking for an exit in late 2007 or 2008.

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*Source: Is Venture Capital*



BUSINESS STRUCTURE



Client Portfolio of Probil's subsidiaries



Probil has five subsidiaries; each focused on various sectors with business solutions. The company provides IT solutions to SMEs and large companies through its subsidiaries. Probil runs its operations with 24 hrs and 7 days approach with its highly developed branches and service partners. Probil has three data centers which are located in Istanbul, Ankara and Izmir. Although the company has significant competitors like IBM, Meteksan, Koc Sistem, there is still room for each due to an ongoing outsourcing trend from Turkish companies. It should be noted that Probil has a significant client portfolio.

Is Venture Capital announced on 04 May 2007 that the management decided to resume their IPO application of Probil due to ongoing uncertainty in market conditions and political instability.



## VALUATION

The DCF model of Probil implies a fair value of US\$40.1 mn, indicating Is Venture Capital's stake as US\$4 mn.

*The DCF assumptions for Probil are as follows:*

- Probil realized net sales of US\$58 mn in 2005 and US\$90 mn in 2006; hence US\$113 mn is expected for the year of 2007. We assumed the company will experience between 15% and 20% revenue growth going forward.
- Like other software development companies, Probil's financials do not cover high capex figures.
- We forecast EBIT margin to be at a range of 5% to 7% between 2007-2010, whereas our EBITDA margin assumption will also remained flat at 8% during the assumption duration.
- Employing a risk free rate of 7.5% and equity risk premium of 5%, we determined a cost of equity value of 12%. We have used a 2% perpetuity rate to calculate the terminal value of Probil.

<b>Probil DCF Valuation</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Sales	113.2	135.8	163.0	187.4
Cost Of Sales	-95.6	-114.8	-137.7	-158.4
GROSS PROFITS/LOSSES	17.5	21.0	25.3	29.0
Operating Expenses	-9.9	-11.9	-15.1	-17.4
<b>EBIT</b>	<b>7.6</b>	<b>9.1</b>	<b>10.1</b>	<b>11.6</b>
+ depreciation&amortisation	1.5	1.8	2.1	2.4
<b>EBITDA</b>	<b>9.1</b>	<b>10.9</b>	<b>12.2</b>	<b>14.1</b>
Taxation	-1.4	-1.7	-1.9	-2.2
Capex	1.5	1.8	2.0	2.5
Change in Working Capital	1.4	2.2	2.9	2.5
<b>Free Cash Flow YTL mn</b>	<b>4.7</b>	<b>5.1</b>	<b>5.4</b>	<b>6.9</b>
<b>Free Cash Flow YTL US\$</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>4.0</b>
PV of Free Cash Flow	2.8	2.7	2.5	2.7
Net Present Value	10.8			
Terminal Value	32.6			
Net Debt	2			
Target Value - US\$ mn	41.4			
Is Girisim Stake (%)	10%			
Is Girisim Stake - US\$ mn	4.1			
Sales Growth (%)	25%	20%	20%	15%
Gross Margin (%)	15%	15%	15%	15%
EBIT Margin (%)	6.7%	6.7%	6.2%	6.2%
EBITDA Margin (%)	8%	8%	8%	8%

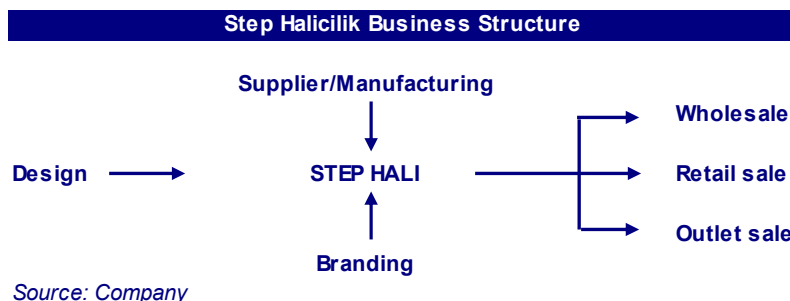
**STEP HALICILIK VE MAGAZACILIK AS**

Established in 1998 in Istanbul under the name of Sengor Halicilik (Step Hali), the company offers unique and modern carpets and home accessories to its customers via its well-located stores. As a well branded carpet retailer, the company currently runs its operations with 22 stores, 13 corner shops, and 17 franchises. Step Hali opened its 350 sqm owned store in London under Stepevi name.

STEP HALICILIK
<b>Description/Business Sector:</b> Only Branded carpet and home accessories retailing in Turkey
<b>Deal Source:</b> Propriety
<b>HQ:</b> Istanbul
<b>Revenue Growth:</b> 26% CAGR (2003-2006)
<b>Chairman:</b> Cem Sengor
<b>CEO:</b> Cem Sengor
<b>Investment by Is Venture Capital:</b> US\$3.5 mn
<b>Investment Type:</b> Equity- Minority (33.3%)
<b>Investment Date:</b> 20/07/2004- 25/04/20006 (2 tranches)
<b>Status:</b> Successful Expansion in Middle East and Europe under way. Own store in London Kings Road, corners in Harrods and Selfridges (London), ABC Carpets (New York), franchise stores in Beirut, Dubai, Jordan, Kuwait
<i>Source: Is Venture Capital</i>

The transformation of the company began with the share purchase of Cem Sengor, current CEO of Step Halicilik, between 1993 and 1998. Later on, the stores redesigned by the management and the company became a carpet and home accessories retailer. Cem Sengor is the main shareholder of Step with 67.35% stake, followed by Is Venture Capital with 33% stake.

**BUSINESS STRUCTURE**



Step products, produced by design department, have been exported to 35 countries including France, USA, Italy, Korea and China. The company is planning to attain a US\$9.5 mn export figure in 2007 relative to 2005 figure of US\$3.5mn in 2006. It should be noted that Step has been supplied around 50% of its products from the factory, in which CEO Sengor has a respectable stake. Although Step’s business structure does not include direct manufacturing process, the rug business’ sales constitute approximately 80% of total revenues. The company also imports from major companies in Europe.

**Expansion strategy of Step continues...** The company opened a store on Kings Road of England in November 2005 with an investment of US\$2 mn, although management has concerns due to conservative client nature of England. Based on its expansion strategy, the company opened two franchisee stores in 2006; one in Dubai in and the other one locates in Jordan. The corner in New York, on the other hand, began its operations in July 2006, whereas, corner in Harrods, UK, was opened in December 2006. For the year of 2007, Step management plans to corners in Kuwait, Austria, South Africa, Greece and India.

Step Hali weaved 60k sqm of rug with 16 machines in 2006, and is expecting to increase the number of carpet machines to 20, indicating a weaved carpet of 150k sqm. The Turkish rug market is expected to be at 60mn sqm and machine carpet accounts 90% of the market according to Igame report.

**Is Venture Capital on Step Halicilik...** Is Venture Capital invested US\$3 mn in July 2004 and acquired 30% of the total stake. Additionally, the company also decided to exercise its option alternative with US\$0.5 investment and increased its stake to 33%. Following the cash injection of Is Venture Capital, according to its expansion plans, Step increased its exposure in international market.

## VALUATION

The DCF model of Step implies a fair value of US\$19.5 mn, indicating Is Venture Capital's stake as US\$6.6 mn.

*The DCF assumptions for Step are as follows:*

- Step Halicilik realized a net sales figure of US\$17.4 mn in 2005 and US\$21.5 in 2006. The company management expects US\$25.5 mn revenue, thanks to the capacity increase in Isparta factory, and the new openings around the world.
- We forecast EBIT margin to be at a range of 15% and 17% between 2007-2010, whereas our EBITDA margin assumption will also fluctuate between 17% and 18%.
- We tried to be conservative; therefore, we do not add the additional store openings after 2008 in to our DCF model.
- Employing a risk free rate of 7.5% and equity risk premium of 4%, we determined a cost of equity value of 11.6%. We have used a 2% perpetuity rate to calculate the terminal value of Step.

Step DCF Valuation	2007E	2008E	2009E	2010E
Net Sales	25.5	28.1	30.9	33.9
Cost Of Sales	-10.3	-10.9	-11.8	-12.7
GROSS PROFITS/LOSSES	15.2	17.1	19.1	21.2
Operating Expenses	-11.2	-12.9	-14.1	-16.1
<b>EBIT</b>	<b>4.0</b>	<b>4.2</b>	<b>4.9</b>	<b>5.1</b>
+ depreciation&amortisation	0.3	0.3	0.3	0.3
<b>EBITDA</b>	<b>4.2</b>	<b>4.5</b>	<b>5.2</b>	<b>5.5</b>
Taxation	-0.7	-0.8	-0.9	-1.0
Capex	2.0	1.0	1.0	1.0
Change in Working Capital	0.6	0.3	0.4	0.4
<b>Free Cash Flow YTL mn</b>	<b>0.9</b>	<b>2.4</b>	<b>2.9</b>	<b>3.1</b>
<b>Free Cash Flow US\$ mn</b>	<b>0.6</b>	<b>1.5</b>	<b>1.8</b>	<b>1.8</b>
PV of Free Cash Flow	0.6	1.3	1.4	1.3
Net Present Value	4.4			
Terminal Value	18.1			
Net Debt	4.0			
Target Value - US\$ mn	18.5			
Is Girsim Stake (%)	33%			
Is Girsim Stake - US\$ mn	6.1			
Sales Growth (%)	19%	10%	10%	10%
Gross Margin (%)	59%	61%	62%	63%
EBIT Margin (%)	15%	15%	16%	15%
EBITDA Margin (%)	17%	16%	17%	16%

## BEYAZ FILO KIRALAMA AS

Headquartered in Ankara, Beyaz Oto Kiralama AS was established in 1993 by Flap Tour, a travel agency focusing on the organization of national and international congresses, meetings and seminars. Beyaz Filo's fleet size currently reached 7,100 in 2007. The figure was 5,600 before Is Venture Capital decided to purchase 15.69% of the company with US\$4 mn investment. Is Venture Capital has also the right to exercise an option of US\$16.8 mn going forward.

### BEYAZ FILO

**Description/Business Sector:** One of the prominent players in Turkish car/fleet rental sector.

**Deal Source:** Propriety

**HQ:** Istanbul

**Revenue Growth:** 30% CAGR (2006-2010E)

**Chairman:** Gurkan Gencler

**CEO:** Gurkan Gencler

**Investment by Is Venture Capital:** US\$4mn

**Investment Type:** Equity- Minority (15.69%)

**Investment Date:** 12/10/2006

**Status:** Current fleet size of 7,100 (03/2007); planning to be the market leader as a result of easier access to long term finance follow ign Is Venture's investment.

*Source: Is Venture Capital*

In December 2004, Beyaz Filo combined its operations under one entity named Beyaz Otomobil Kiralama Turizm ve Sigortacilik Hizmetleri. Beyaz Filo's revenues reached US\$40 mn in 2006, and the management aims at reaching an annual revenue of US\$60 mn in 2007, implying a 50% growth over 2006.

More than 80% of its vehicles in the fleet are between 2004 and 2005 model and the second hand sale prices of Beyaz vehicles are high relative to its competitors according to company management.

Beyaz Filo focuses on operational fleet rental and currently about 90% of the fleet are assigned to large sized state-owned banks and large institutions including Vakifbank, Akbank, Ziraat Bank and Sabanci Holding. The fleet rental contracts are long-term, implying an at least 48 month business with its clients. In addition, the contracts can be in dollar, YTL or Euro basis, which changes based on the contract duration. The location of Beyaz Filo also has a significant advantage over its competitors, since state owned institutions are mainly located in Ankara.

**Fleet rental sector growth continues...** The fleet rental sector size reached US\$300 mn with 70K vehicles in 2006 from 9K in 2001, implying a CAGR of 51%. The sector has speed up after 2005 with the international players' appearance. According to Head of Fleet Rental Enterprises Association, 93 companies are the member of their association; however, there are only 20 large asset backed companies in fleet rental sector including foreign players.

The rental fleet size of the sector so far reached 95K, and of the total amount 80K has been used for long term fleet rentals. The fleet size is expected to be at around 120K by the end of 2007.

**Competition in the fleet rental sector...** According to sector officials, there are 20 companies with strong capital including multinationals such as Avis, Budget, Hertz, National, Sixt. The major domestic companies can be named as Beyaz Filo, Intercity, Derin, Do-Car, Bumerang and Derindere.

**The future of the sector looks sparkling...** The sector officials are expecting fleet size to be reached 320K by 2009, on the back of government efforts on budgetary restraints and growth nature of the sector. The public institutions began fleet rental activities following the announcement of Prime Ministry Saving Circular, which obligates public institutions to rent their vehicles instead of purchasing activities. However, the fleet rental contracts with public institutions so far remained diminutive according to sector officials. Prime Ministry, Tourism Ministry, Transportation Ministry and Finance Ministry are the public institutions that benefit from fleet rental services as of now.

**Fleet rental sector is looking for a new law, which will definitely set the sector in order...** The fleet rental companies have been operating under the road transportation act of Turkey, however, the sector officials indicates recently that the sector is need of a new law that could be in effect after 2007, which will definitely set the sector in order. Besides the lack of an act, the sector has been experiencing insurance problems plus infrastructure and traffic issues.

**Fleet Rental advantages to institutions...** The institutions avoid themselves from high investment costs and additional financial burdens, plus invoicing the car rental expenses per month enabled service users to enjoy tax benefits. It should also be noted that the periodical expenses like maintenance, repairs and insurance are at the responsibility of fleet rental companies.

**Is Venture Capital on Beyaz Filo...** Is Venture Capital had invested US\$4 mn and acquired 15.69% stake in 2006. Following the cash injection, Beyaz Filo increased its fleet size to 7,100 vehicles in 2006 from 5,600 in 2005. We believe that Is Venture Capital will increase its exposure in Beyaz Filo going forward; hence, the company has the right to exercise an option of US\$16.8 mn going forward.

## VALUATION

We valued Beyaz Filo by taking one of the latest acquisitions in the sector. Although we have seen three major transactions in the market since 2005, we decided to use Do-Car acquisition by TII (The International Investor) of Kuwait. We applied a 15% discount to the acquisition price of Do-car since its fleet was mainly composed of heavy commercial vehicles during the acquisition. Based on this acquisition, we found the implied value of Beyaz Filo as US\$44 mn, indicating Is Venture Capital's stake as US\$7 mn.

Company	Fleet Size	Stake sold (%)	Acq. price (US\$ mn)
Docar	4,000	75%	22
<b>Beyaz Filo Valuation</b>			
Beyaz Filo	7,100		
Fair Value of Beyaz (US\$ mn)	44		
<b>Is Venture's stake (US\$m)</b>	7		

Source: Company, RJ

## NEVOTEK BILISIM AS

Nevotek Bilisim was established as a high technology company in 2001, which has been targeting on IP software. The company has been focused on Cisco IP telephony and operates with its branches in Amsterdam, Dubai and United States. Nevotek headquarter is located in Istanbul.

### NEVOTEK

**Description/Business Sector:** IP Convergence company technology aproced and supported by Cisco.

**Deal Source:** Propriety

**HQ:** Istanbul

**Revenue Growth:** 64% CAGR (2002-2006)

**Chairman:** Tankut Turhan

**CEO:** Arda Unsal

**Investment by Is Venture Capital:** US\$3 mn

**Investment Type:** Equity- Minority (88.24%)

**Investment Date:** 30/09/2003 - 20/12/2006 (5 tranches)

**Status:** Winner of many Cisco awards; Selected as one of the six "Cisco Technology Developer Program" members out of 300 companies (2005)

Source: Is Venture Capital

Nevotek has been providing IP based solutions to various industries, including oil&gas, S&P markets, hospitality sector, and has been supplying value-added solutions to 30 countries. As a software development and R&D company, the company is exempt from corporate tax and does not have to pay income taxes on salaries of its employees.

**Is Venture Capital owns 88% of Nevotek...** Is Venture Capital participated the capital increase of Nevotek with a US\$0.4 mn in 2003, afterwards the venture capital decided to increase its stake to 88.2% in 2006 with a additional investment of US\$1.8 mn. We should admit that it would not be surprise for us if Is Venture will exercise its option of US\$2 mn, since Is Venture Capital had enjoyed the sector and has a faith in Nevotek. Nevotek is the only company that is fully consolidated by Is Venture Capital.

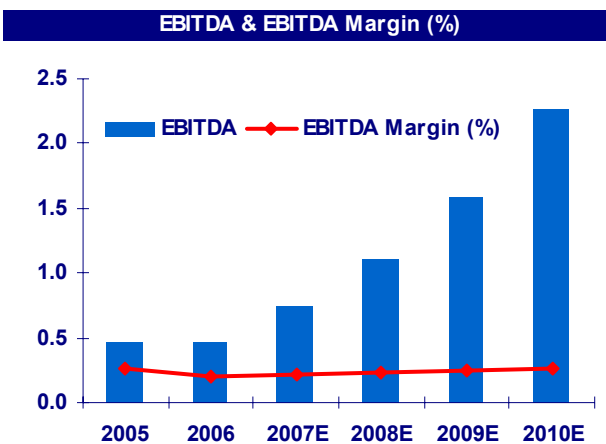
**Key clients & IP Solutions...** Nevotek has a large portfolio of well known clients from major industries. The company provides IP converge telephony solutions to Arcelik, Divan and Aygaz, which enables those companies to keep the track of all inside and outside calls. Nevotek is currently trying to increase its strength in hospitality and health care businesses with its new products. The Crowne Plaza Hotel of Dublin is one of the Nevotek’s clients which had been used IP services since 29 August 2003.

The company also offers an IP-converged solution to its clients in health-care market called V/IP Healthcare Suite, which can only be used with Cisco IP phones. In addition, the software was prepared for not only the needs of the patients but also helps hospital managements to minimize their costs.

**Nevotek interms of revenues...** Nevotek is fully consolidated under Is Venture Capital’s financials. The company managed to attain a 34% growth in revenues in 2006 which realized at US\$2.3 mn. The company management expects that Nevotek will realize annual revenue of US\$3.4 mn in 2007 on the back of geographical expansion strategy of the company.

**EBITDA & EBITDA Margin...**

We envisage that EBITDA of Nevotek will be realized at US\$0.7 mn in 2007, implying a 59% yoy growth over 2006 due to the contribution of new branch openings. In 2007, we believe that the company will be able to attain an EBITDA margin of 22%, compared to Ebitda margin of 20% in 2006. We also think that the Ebitda margin of Nevotek will slightly show improvement going forward.



Source: Company, RJ



## VALUATION

The DCF model of Nevotek implies a fair value of US\$6.8 mn, indicating Is Venture Capital's stake as US\$6 mn. Nevotek uses the advantage of being an R&D company, thus its financials do not cover high capex figures.

<b>Nevotek Bilisim DCF Calculation</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Sales	3.4	4.8	6.4	8.6
Cost Of Sales	0.5	0.7	0.9	1.2
GROSS PROFITS/LOSSES	2.9	4.1	5.5	7.4
Operating Expenses	2.3	3.2	4.2	5.7
<b>EBIT</b>	0.6	0.9	1.3	1.7
<b>EBITDA</b>	0.7	1.0	1.5	1.9
Taxation	0.0	0.0	0.0	0.0
Capex	0.5	0.5	0.5	0.4
W/C	0.2	0.2	0.2	0.2
<b>Free Cash Flow YTL mn</b>	0.0	0.3	0.8	1.3
<b>Free Cash Flow US\$ mn</b>	0.0	0.2	0.5	0.8
PV of Free Cash Flow	0.0	0.2	0.4	0.5
Net Present Value	1.1			
Terminal Value	6.8			
Net Debt	0			
Target Value - US\$ mn	6.8			
Is Girişim Stake (%)	88%			
Is Girişim Stake - US\$ mn	6.0			
Sales Growth (%)	47%	40%	35%	34%
Gross Margin (%)	85%	86%	86%	86%
EBIT Margin (%)	19%	19%	20%	20%
EBITDA Margin (%)	22%	22%	23%	23%

Employing a risk free rate of 7.5% and equity risk premium of 4%, we determined a cost of equity value of 12%. We have used a 2%perpetuity rate to calculate the terminal value of Nevotek.

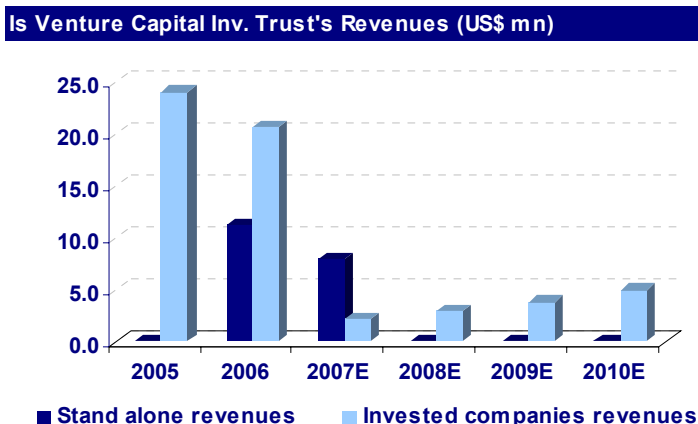
## REVENUE STRUCTURE OF IS VENTURE CAPITAL

**Revenues from invested companies...** Is Venture Capital is generating revenues from the invested companies under fully consolidation. The fund's sales were more than doubled in 2005 and reached US\$24 mn compared to 2004 sales figure of US\$11 mn. The main reason for this increase was the consolidation of Cinemars with the latest cash injection of US\$6.5 mn by Is Venture Capital. In 2006, Is Venture Capital's consolidated revenues increased only by 2% due to the completion of this investment on August 2006.

**Revenues from exit transactions...**The stand alone revenues, on the other hand, booked under top line as net sales revenue of Is Venture Capital. In 2006, Is Venture capital materialized its first significant exit by selling back its stake owned to Mars Entertainment Group, parent stakeholder of Cinemars, at US\$19.4 mn, and booked a US\$7.8 mn net sales revenue. Since the company had concluded its investments on Tuyap by also selling the shares



back to parent shareholder of Tuyap, Fuar Destek Hizmetleri AS for US\$10.79 mn, we envisage that Is Venture Capital will have US\$5.2 mn net sales revenue from this transaction.

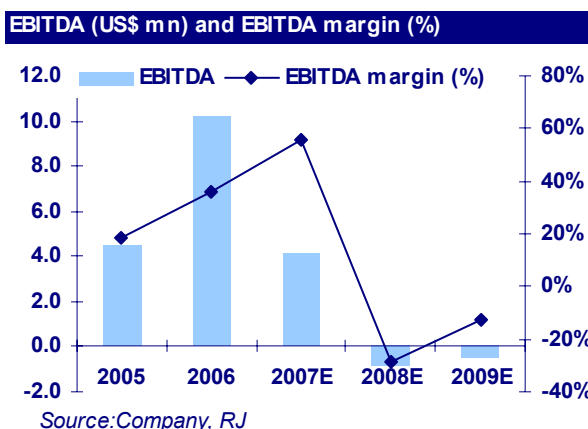


Source: Company, RJ

Nevotek is currently the only company consolidated under Is Venture capital financials. We also do not incorporate an exit or an investment action that could be taken by Is Venture Capital.

**EBITDA & EBITDA Margin...**

We expect that EBITDA of Is Venture Capital will decline to US\$4 mn in 2007E from US\$10 mn in 2006 due to two exit transactions on August 2006 and February 2007. Therefore, it is reasonable to observe a negative EBITDA after 2008 without incorporating the impact of potential investments on Is Venture financials after 2007.



Source: Company, RJ

### WHAT IS VENTURE CAPITAL..?

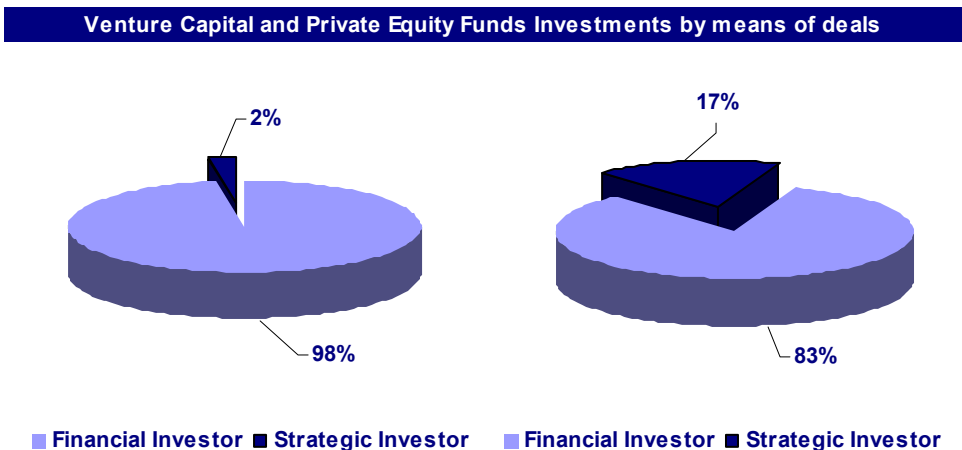
Venture Capital is mainly a kind of investment tool provided by professional people or venture capital companies to fund start-up or mid age companies. Although the development of a new product to the market or supporting an existing company at later stage carries some risks, high potential return mainly attracts venture capitalists. The venture capital companies may seek to invest in one sector or various industries.

The important question for venture capital firms is to determine an exit strategy for themselves. Generally, the global investment duration of venture capital firms is three to seven years. It should be noted that the most successful exits of venture capitalists has been realized during initial public offerings.

Venture capital firms not only invest companies but also use their know-how and experience, and even they are active in company's managements to have a control to decrease the risks of entrepreneurs.

### VENTURE CAPITAL MARKET IN TURKEY

Turkish venture capital and private equity sector offers high growth and investment opportunities on the back of structural reforms, increasing efficiency of Turkish economy and ongoing EU relations. Despite double elections in 2007, the ongoing privatization efforts of government and stable growth in Turkey attract foreign investors, accordingly, the share of venture capital and private equity transactions in merger & acquisitions increased to 17% in 2006 from 4% in 2005 according to Ernst&Young 2006 Merger&Acquisitions report.



Source: Ernst&Young

Unlisted KOBİ, Is and Vakıf Venture Capitals are local based venture capital firms that have been active in the sector, which indicates the immature characteristics of private equity and venture capital sector of Turkey. The first market player, Vakıf Venture Capital was established in 1996, and was opened to public on July 2000. Vakıf Venture Capital Investment Trust has

invested in Teknoplazma AS, Inova Biyoteknoloji AS and Orta Dogu Yazilim Hizmetleri AS since 1996, however, the first two announced their liquidation in 2005 and 2006, respectively.

The chart below depicted the increasing attractiveness of Turkish companies in 2006 by foreign investors. Texas Pacific Group's (TGP), one of the largest private equity funds, May Icki deal was the eye catching transaction realized in 2006.

**Major Private Equity and Venture Capital (Financial Investors) Deals in 2006**

Acquirer	Country	Target	Sector	Stake	Deal Value (US\$mn)
Texas Pacific Group	USA	Mey İcki	Food and Beverage	90%	810.0
Providence Equity Partners	USA	Digital Platform	Media	47%	250.0
Citigroup and Partners	USA	Biofarma İlac	Pharmaceuticals	100%	240.0
İs Girişim Sermayesi	Turkey	Beyaz Oto Filo Kiralama	Services	16%	4.0
İs Girişim Sermayesi	Turkey	Nevotek	IT	13%	1.8
Global Equities Management	Bahamas	Emek Hayat Sigorta	Financial Services	100%	1.1
Kobi Girişim Sermayesi	Turkey	Butek	Automotive By-Product	45%	0.9
İs Girişim Sermayesi	Turkey	Step Halıcılık	Textile	3%	0.5
AIG Capital Partners	USA	For You	Retail	Not Disclosed	Not Disclosed
Turkven and Dutch Dev. Bank FMO	Turkey	Pronet	Services	50%	Not Disclosed
United Development Company	Qatar	Turk Milenya	Technology	60%	Not Disclosed

Source: Ernst&Young

İs Girişim had invested US\$4 mn to acquire 15.69% stake of Beyaz Filo Car Rental Company in October 2006, and also increased its stake in Novetek to 88% from 75% with a US\$1.1 mn investment.

**Strong inflows from foreign funds...**

Following the 2001 economical crisis, the private equity activity in Turkey had been slowed down, almost stopped at US\$40 mn level per annum. However, the financial investor's disclosed investments reached US\$1.5 bn in 2006. Rather than venture capital firms like Apax Partners, Advent, Kohlberg Kravis Roberts & Co and Warburg Pincus, leading independent private equity funds like Turkven, AIG Capital Partners and Bedminster Capital has increased their exposure in the market. Although, AIG Capital partners experienced an undesirable partnership with Galatasaray Sportif, and sold its stake in 2004, the fund invested cosmetics retailer named For You in 2006. Please note that the deal has not been disclosed yet.

Turkven, one of the leading independent private equity fund, on the other hand, has invested in six companies, in which the venture backed leveraged buy-out of Uno Bakery in 2003 was the remarkable among all. The fund was able to increase company's sales to US\$50 mn in 2006 from US\$20 mn in 2003.

Turkven also purchased 50% of the leading security services company, Pronet in 2006. The company is expected to reach US\$24 mn revenue in 2006. The deal has not been disclosed yet, therefore, we do not know the

amount invested by Turkven. Turkven has been using the fund which was established by foreign corporate investors under the management of Advent International.

Egypt based EMEA Fund had invested Turkish companies, Probil and Gorbon İsil. Soros Investment Fund's sole investment was purchasing Unimak Gida from Unilever in August 2003. Unimak Gida is the producer of Sirma and Yudum which are the leading enterprises in the edible oil sector. The company currently runs its operations under the name of its well known brand "Yudum" which has an annual production capacity of 85,000 tons for corn and sunflower oil, and 20,000 tons of olive oils.

### **CMB ruling on Venture Capital Investment Trusts...**

Venture Capital Investment Trust companies are exempt from corporate and income tax and have been ruled by Capital Market Board of Turkey. Venture Capital firms in Turkey; i) participate the management of entrepreneur company and may provide consulting services. ii) venture capital firms are allowed to invest on marketable securities to expand their portfolio and they may even purchase stocks of Entrepreneur Company.

Venture capital firms, on the other hand, have to obey the restrictions of CMB which are; i) the venture capital firms can not invest companies if the shareholders or management of venture firm owns more than 10% stake in the company. ii) venture firms can not invest more than 50% of their total portfolio into marketable securities. iii) listed venture capital firms have to invest more than 50% of their total fund in entrepreneur companies which have been established in Turkey. Please note that the aforementioned rules have to be obliged by listed venture capital investment trusts.

<b>Is Venture Capital Balance Sheet US\$mn</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>ASSETS</b>						
Current Assets	44	56	62	59	58	58
Liquid Assets	1	24	29	27	25	25
Marketable Securities	41	31	33	32	32	32
Short-Term Trade Receivables	1	1	0	0	0	0
Short-Term Leasing Credits	0	0	0	0	0	0
Short-Term Receivables from Related Parties	0	0	0	0	0	0
Other Short-Term Receivables	1	0	0	0	0	0
Live Assets	0	0	0	0	0	0
Inventories	0	0	0	0	0	0
Other Current Assets	0	0	0	0	0	0
<b>LONG TERM ASSETS</b>	<b>34</b>	<b>19</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>12</b>
Long-Term Trade Receivables	0	0	0	0	0	0
Long-Term Leasing Credits	0	0	0	0	0	0
Long-Term Financial Assets	13	16	11	11	12	14
Goodwill	11	2	1	1	1	1
Tangible Fixed Assets	9	0	0	0	0	0
Intangible Fixed Assets	1	1	1	1	1	1
Long Term Deferred Tax Assets	0	0	0	0	0	0
Other Long-Term Assets	0	0	0	0	0	0
<b>TOTAL ASSETS</b>	<b>78</b>	<b>75</b>	<b>75</b>	<b>72</b>	<b>70</b>	<b>69</b>
<b>LIABILITIES</b>						
<b>SHORT TERM LIABILITIES</b>						
Short-Term Financial Loans	0	0	0	0	0	0
Current Install & Int. of Long-Term Loans	2	0	0	0	0	0
Short-Term Trade Payables	2	0	0	0	0	0
Short-Term Payables to Related Parties	0	0	0	0	0	0
Short-Term Provisions	0	0	0	0	0	0
Other Short-Term Liabilities	1	0	0	0	0	0
<b>LONG TERM LIABILITIES</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-Term Financial Loans	4	0	0	0	0	0
Provisions	0	0	0	0	0	0
Deferred Tax Liabilities	0	0	0	0	0	0
<b>MINORITY INTERESTS</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>SHAREHOLDERS EQUITY</b>	<b>66</b>	<b>74</b>	<b>75</b>	<b>72</b>	<b>70</b>	<b>69</b>
Share Capital	17	16	15	14	14	13
Adjustments to Share Capital	0	0	0	0	0	0
Capital Reserves	47	45	39	38	37	36
Premium in Excess of Par	5	5	4	4	4	4
Share Cancellation Profits	0	0	0	0	0	0
Revaluation Surplus of Fixed Assets	0	0	0	0	0	0
Mkt. Value Surplus of Financial Assets	0	0	0	0	0	0
Shareholders Equity Inflation Adjustments	41	40	35	34	33	32
Other Capital Reserves	0	0	0	0	0	0
Income Reserves	5	7	8	7	6	6
Legal Reserves	2	2	2	2	2	2
Statutory Reserves	0	0	0	0	0	0
Extraordinary Reserves	3	3	4	3	2	2
Special Reserves	0	2	2	2	2	2
Dividends Added To Capital	0	0	0	0	0	0
FX Translation Differences	0	0	0	0	0	0
Other Profit Reserves	0	0	0	0	0	0
Other Sholders Equity Items	0	0	0	0	0	0
Current Year Income /(Losses)	8	11	7	1	1	1
Retained Earnings /(Acc. Losses)	-9	-4	5	12	12	13
<b>TOTAL LIABILITIES AND S.HOLDERS EQUITY</b>	<b>78</b>	<b>75</b>	<b>75</b>	<b>72</b>	<b>71</b>	<b>69</b>

<b>Is Venture Capital Income Statement US\$ mn</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
Net Sales	24	29	7	3	4	5
Cost Of Sales	15	14	0	0	1	1
Service Revenues	0	0	0	0	0	0
Proceeds from Operations/int. +div+lease	0	0	0	0	0	0
<b>GROSS PROFITS/LOSSES</b>	<b>9</b>	<b>15</b>	<b>7</b>	<b>3</b>	<b>3</b>	<b>4</b>
Operating Expenses	6	5	3	4	4	5
<b>NET OPERATING PROFITS</b>	<b>3</b>	<b>10</b>	<b>4</b>	<b>-1</b>	<b>-1</b>	<b>0</b>
Income from Other Operations	7	6	7	5	5	4
Expenses from Other Operations	2	3	3	3	2	2
Financial Expenses	1	1	0	0	0	0
<b>OPERATING PROFITS</b>	<b>8</b>	<b>12</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>2</b>
Net Changes on Monetary Positions	0	0	0	0	0	0
<b>MINORITY INTERESTS</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>INCOME BEFORE TAXES</b>	<b>7</b>	<b>11</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>1</b>
Taxation on Income	0	0	0	0	0	0
<b>NET PROFIT AFTER TAXES</b>	<b>8</b>	<b>11</b>	<b>7</b>	<b>1</b>	<b>1</b>	<b>1</b>

**Stock Ratings:**

**Buy:** Stocks with a forecast 12mth (US\$) absolute total return of greater than %15%

**Hold:** Stocks with a forecast 12mth (US\$) absolute total return of between 15% and -15%

**Sell:** Stocks with a forecast 12m th (US\$) absolute total return of less than -15%

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