

# Private Equity - Bulgaria



## NOTABLE TRANSACTIONS

### *December 2007*

Advent International acquired Bulgaria's leading manufacturer and exporter of ceramic tiles KAI Group in a deal worth in excess of €100m.

### *November 2007*

AIG-New Europe Fund sold JetFinance International, Bulgarian provider of consumer credit services with total assets of €109m to a subsidiary of BNP Paribas.

### *August 2007*

AIG Capital Partners, a subsidiary of AIG Investments, acquired 90% of Bulgaria's dominant fixed-line telecom BTC from Viva Ventures on the Bulgarian Stock Exchange for €1.1bn.

### *July 2007*

Global private investment firm Bain CP acquired two Bulgarian units of manufacturer American Standard.

### *July 2007*

GE Capital Investments Holding and Felstone acquired a 50% stake in M.O. Plovdiv, a project company developing a shopping mall in Plovdiv for over €100m.

An overview of the Bulgarian private equity market

## Bulgarian Private Equity: General

Private equity has been practised in Bulgaria for a short number of years but it already plays a key role in boosting local and regional economic growth. It is seen as one of the main prospective sources of funding in Bulgaria, as alternatives remain limited: capital markets are developing fast but liquidity levels are still insufficient; local capital available for investment is not abundant; and corporate debt markets are shallow and undiversified. Thus private equity has usefully stepped up to provide capital resource, with the number of buy-outs increasing and attention to venture capital opportunities also on the rise. In addition, the market's focus away from highly-leveraged deals has made it increasingly attractive due to the nature of the current global financial climate.

infrastructure opportunities for high growth are seen.

## Trends

### **Consolidation**

Consolidation is playing a major role in sectors with many local players and few multinationals such as: telecoms, media, food & beverage and business services. Analogously, diversified conglomerates created in the post-privatisation era are at a stage where they are looking to focus. Finally, privatisation opportunities mainly in energy and infrastructure continue to be attractive.

### **Investment in the Growth Sectors**

In fields where Bulgaria is catching up with the EU such as energy (especially renewables), infrastructure, retail, financial services, other services and

An overview of the legal aspects of the Bulgarian private equity market

## **Bulgarian Private Equity: The Legal Aspects**

### **Fund Structuring: The Role of Regulation**

Regulatory or tax issues in Bulgarian law may reflect on decisions of where to situate a fund constituted outside Bulgaria. For instance, the requirement of uninterrupted regulatory authorisation for a target demands a keen sensitivity to timing; potential loss of authorisation is a frequently cited deal-breaker. This in turn may involve legal advice on holding structures and therefore the jurisdiction of the fund vehicle.

### **Buy-Outs: Need for Local Knowledge**

Bulgarian Buy-outs often involve entrepreneurs who frequently started up 20 years ago and are now looking for lower risk and lifestyle change. Deals involving these transactionally-inexperienced players can therefore become an intense and time-consuming process. It is in these circumstances that local knowledge becomes paramount and it is often necessary to involve independent experts (usually in the shape of experienced executives from the target sector brought in early in the process as deal consultants). Thus buyers need advice on putting in place conditional/preliminary service agreements and, if previous management is to be retained, on arranging their ongoing involvement.

### **Exit Strategies: Opportunities through Secondaries**

A crucial factor for buyers is exit strategies. Although the Sofia stock market is at an infant stage, there is perceived ease of exit through selling to other buyers through the secondaries

market. These typically raise legal issues connected to the due diligence of balance and off-balance sheet debt financing (to the extent that the primary investor has succeeded in gearing the company).

### **Venture Capital: Attention to I.P. and Corporate Governance Pays Off**

Though there has been little activity to date in the VC and seed financing segment, Bulgaria with its strong traditions in technology and engineering is seen as a growth opportunity. On top of general regulatory issues, Bulgarian venture capital funds need to consider the structuring of crystallised IPRs (especially copyrights and related rights) and arrangements relating to them in non-Bulgarian jurisdictions. The VC funds' usual model of taking a minority stake raises points about Shareholders' Agreements, share classes and other devices to ensure control and accountability for management as well as an optimal business structure.

**Our firm****Bulgarian Private Equity: New Balkans Law Office****Introduction**

New Balkans Law Office is a team of legal professionals specialising in providing Western-style legal services to clients involved in the Bulgarian market. NBLO has been working with corporate and private clients from a variety of countries and industries through both its Sofia and London offices. NBLO's lawyers have excellent practical experience in the conduct of both Bulgarian and international legal business

**Private Equity Capability****Work**

NBLO can offer advice and assistance throughout all the stages in the private equity business cycle: from helping with the limited partnership agreements during fund structuring and securing the necessary regulatory permits, through to the negotiating and drafting of the buy-out contract and its related warranties including any transition services agreements, to finally advising on successful exit strategies.

**Clients**

NBLO is fully capable of advising any of the players in this market: from the MBO management teams and smaller independent fund managers to the investment intermediaries, larger private equity firms and financial institutions. NBLO can quickly put together a focused team which can rapidly react to the demanding timescales of private equity transactions.

**Location**

NBLO is perfectly positioned to be involved in both the domestic and cross-border elements of private equity transactions since it has offices in both Sofia

and London, facilitating both Western and Central and Eastern European clients.

**Experience**

NBLO has a strong corporate practice with experience of both large and small private equity transactions. In addition, NBLO's lawyers have detailed knowledge in all the complementary disciplines which surround a typical private equity process (banking, employment, I.P., real estate, tax, etc.).

**PRIVATE EQUITY EXPERIENCE OF OUR TEAM**

Advising Viva Ventures on the purchase of the GoB's holding in BTC.

Advising a Cayman vehicle on acquiring minority stakes in Russian businesses, including soya protein processors.

Advising a Danish consortium during negotiations on a buy-out of a Bulgarian conglomerate in the real estate sector.

Ongoing support to an Israeli-based, listed developer in arranging interim financing for a secondary on its Bulgarian investments.

Advising the manager of a fund investing in Russia on its ownership, internal decision-making & control mechanisms.

Advising on the acquisition by a Cayman hedge fund of an 80% interest in a Russian agribusiness for approximately \$45 M.

Advising on the establishment of a corporate group and private raising of \$50m to acquire Russian agricultural land.

# Bulgarian Investment Climate

Bulgaria continues to be extremely attractive to investors. Despite forecasts of shrunken investments after the Global Credit Crisis, FDI in Bulgaria will continue growing, although at a slower pace.

The Bulgarian economy has a good potential for development\*:

<b>Total GDP</b>	<b>€28.9bn</b>
<b>Real GDP Growth</b>	<b>6.2%</b>
<b>Avg. Annual Inflation</b>	<b>8.4%</b>
<b>FDI Inflow</b>	<b>\$8,429m</b>
<b>FDI to GDP</b>	<b>19.8%</b>

*\*All figures are from InvestBulgaria Agency March 2008 Report and are annualised and the latest available.*

A number of factors help to create an attractive investment climate in Bulgaria:

**Bulgaria's EU membership**  
**Good geographic location**  
**Macroeconomic and financial stability**  
**Predictable business environment**  
**State support for investment projects**  
**10% corporate income tax**  
**10% flat personal income tax**  
**Lowest operating cost in the EU**

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