

# Baltic PE/VC

## Perspectives on the past and what lies ahead

### Baltic VCA Summit

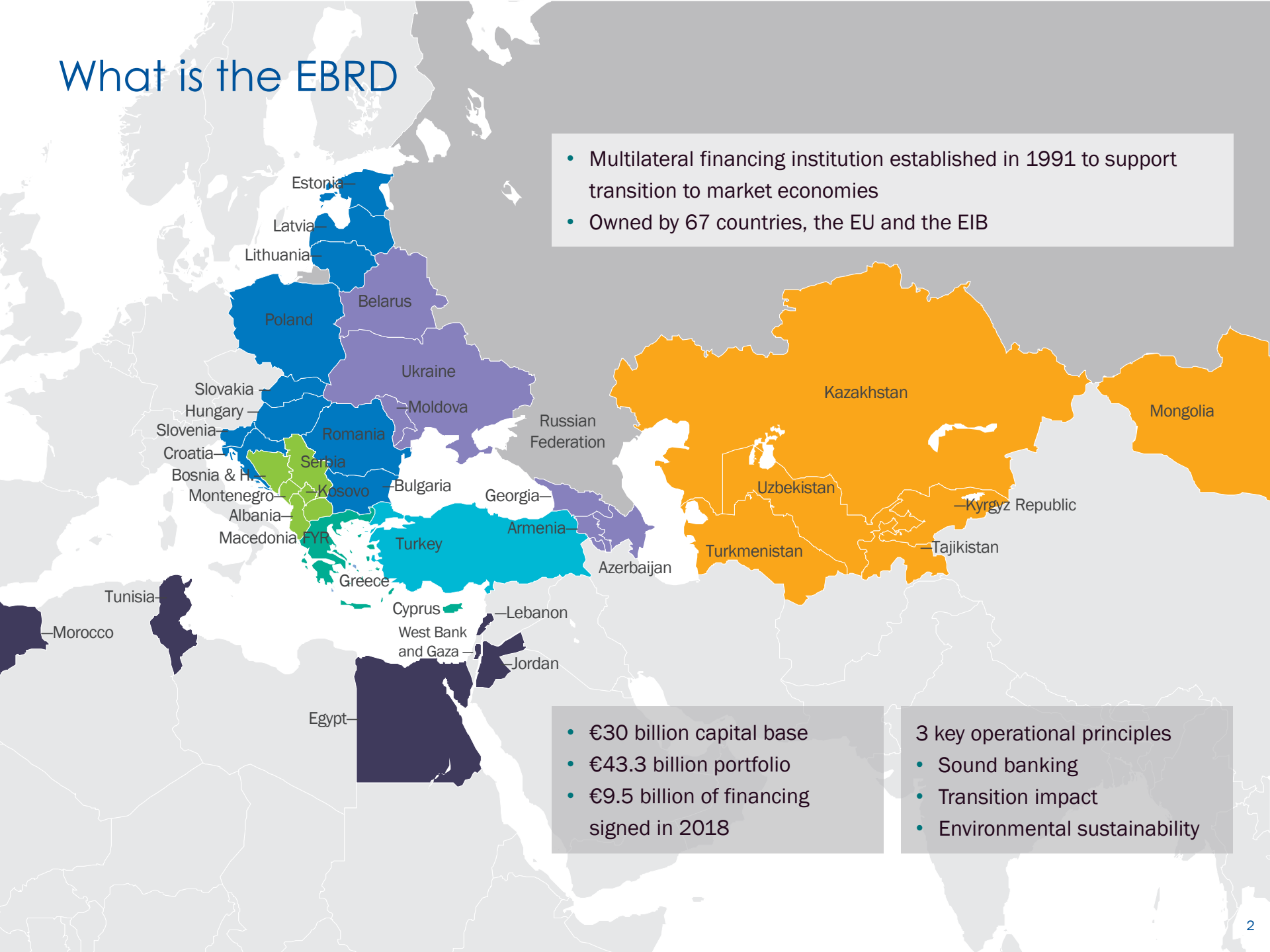
Pavel Dvorak  
Principal Banker  
PE/VC Equity Funds  
Tallinn – August 2019



**European Bank**  
for Reconstruction and Development

# What is the EBRD

- Multilateral financing institution established in 1991 to support transition to market economies
- Owned by 67 countries, the EU and the EIB

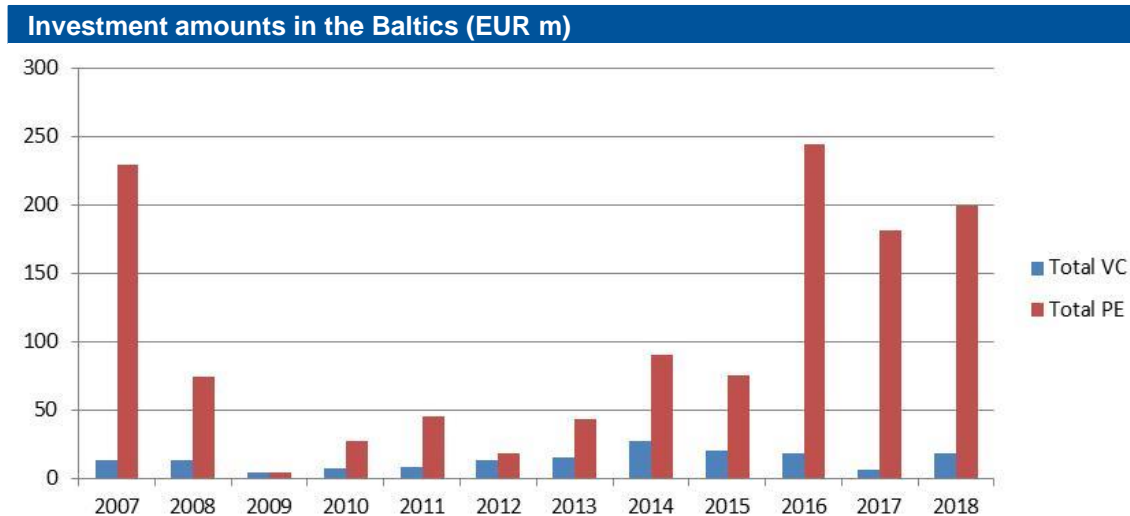


- €30 billion capital base
- €43.3 billion portfolio
- €9.5 billion of financing signed in 2018

- 3 key operational principles
- Sound banking
  - Transition impact
  - Environmental sustainability

# Last 10 years have seen a fast development in both PE and VC...

- Gradual recovery in the PE and VC activity after the shock of the 2008-9 crisis



Source: Invest Europe

- Significant support from the government and IFIs
  - JEREMIE funds in Latvia and Lithuania since 2007
  - Launch of the Baltic Innovation Fund (BIF) in 2012
  - National and EU development programs (including EU ESIF)
  - IFI commitments to funds investing in the Baltics

## ... with a number of success stories helping to put the market on the radar of global investors

- The region is emerging as a new hub for early stage innovation in Europe
- A number of global successes with Baltic roots provide inspiration to a new generation of innovators



- Baltic companies are now on the radar of international investors (in particular in the expansion stage)
- Growing use of local fund structuring is another sign of a maturing ecosystem
- In PE shift towards larger deals, regional focus and new strategies (such as the launch by BaltCap of the first Baltics focused infrastructure fund in 2017)

# Success driven by challenges and comparative advantages



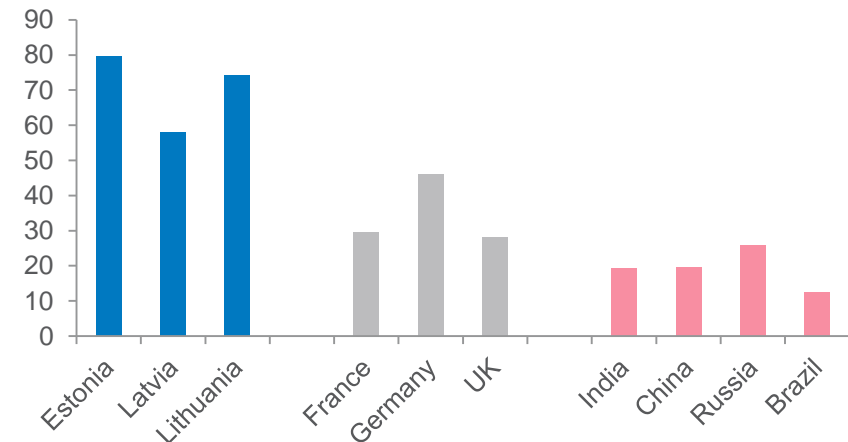
European Bank  
for Reconstruction and Development

- Small local markets
- Highly developed local talent / human capital
- Progressive economic policies (tax, labour market) and regulatory regimes (e.g. reflected in the World Bank Doing Business rankings)

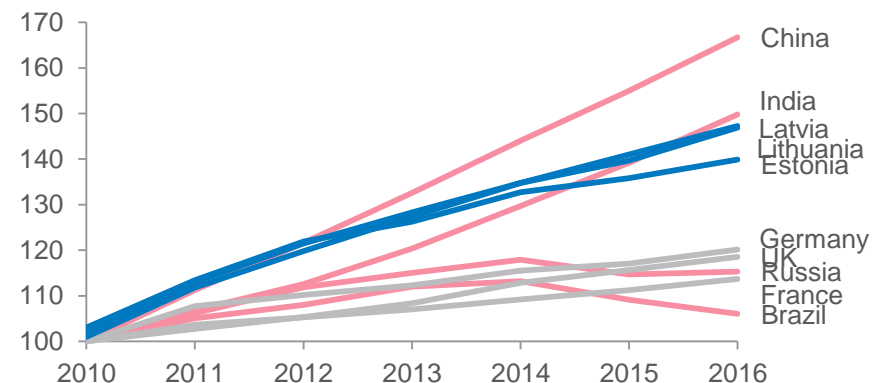


- Outward orientation
- Fast economic convergence
- Entrepreneurial ambition, culture of innovation
- Incentive to work on solutions attractive on the global markets

Exports of Goods and Services (% GDP)



GDP per Capita at PPP: Baltics Leading Europe



Source: World Bank, EuroStat, AMECO

# The Baltic States rank at the top of the EBRD's new Knowledge Economy Index...



European Bank  
for Reconstruction and Development

- Challenges remain in the linkages within the innovation system and further boosting R&D
- Further development of frontier innovation the key priority going forward

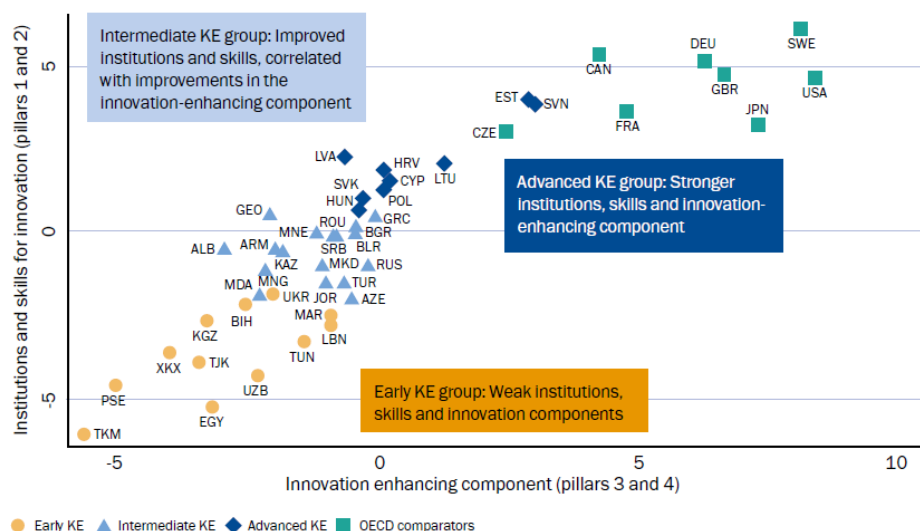


Table 2: EBRD 2018 Knowledge Economy Index – performance by economy

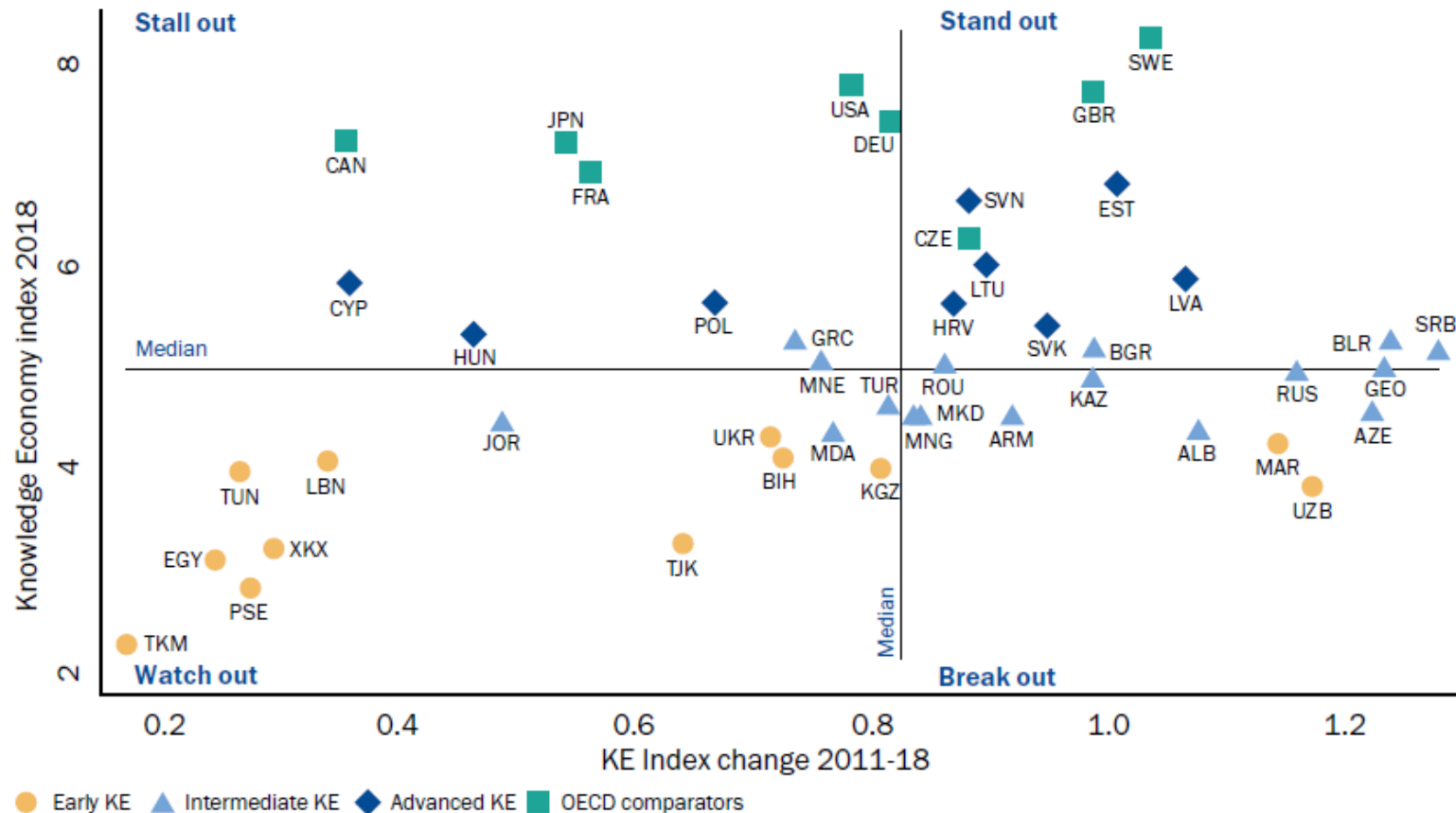
	Economy	Total score (out of 10)	Ranking among EBRD economies	Pillar score (1 min-10 max)			
				Institutions for innovation	Skills for innovation	Innovation system	ICT infrastructure
	OECD comparators (average)	7.36		8.08	7.14	6.48	7.73
	EBRD regions (average)	4.67		5.52	4.96	3.22	5.00
	<i>Difference</i>	<i>2.69</i>		<i>2.56</i>	<i>2.18</i>	<i>3.26</i>	<i>2.73</i>
Central Europe and Baltic states	Estonia	6.82	1	8.01	6.70	4.58	7.99
	Slovenia	6.65	2	7.40	7.32	5.14	6.73
	Lithuania	6.03	3	7.24	5.85	4.04	6.97
	Latvia	5.88	4	7.36	6.31	3.04	6.80
	Poland	5.63	6	6.80	6.31	3.82	5.58
	Croatia	5.62	7	6.72	5.80	3.81	6.14
	Slovak Republic	5.40	8	6.76	5.48	4.08	5.29
	Hungary	5.33	9	6.55	5.82	3.49	5.47
South-eastern Europe	Cyprus	5.82	5	7.52	5.70	3.80	6.27
	Greece	5.25	10	6.06	5.45	3.78	5.74
	Bulgaria	5.18	12	5.91	5.28	3.27	6.28
	Serbia	5.13	13	5.76	5.46	3.26	6.02
	Montenegro	5.04	14	6.20	5.16	2.88	5.92
	Romania	5.01	15	6.02	4.94	3.41	5.68
	North Macedonia	4.50	22	5.74	3.83	3.27	5.18
	Albania	4.36	25	5.64	4.79	2.36	4.67
	Bosnia and Herzegovina	4.10	29	5.04	4.13	2.88	4.35
	Kosovo	3.22	35	4.81	2.75	3.12	2.20
	Russia	4.93	17	4.83	5.74	3.41	5.73
	Turkey	4.60	19	4.87	4.81	3.82	4.90
Eastern Europe and Caucasus	Belarus	5.21	11	5.50	6.05	3.27	6.01
	Georgia	4.97	16	6.56	5.40	2.71	5.21
	Azerbaijan	4.56	20	4.62	4.90	3.68	5.06
	Armenia	4.51	21	5.44	5.24	3.12	4.24
	Moldova	4.33	26	5.03	4.57	2.77	4.95
	Ukraine	4.29	27	4.33	5.44	2.84	4.56

Source: EBRD Knowledge Economy Index (2019)

... and are among the countries that made the biggest progress between 2011 and 2018



European Bank  
for Reconstruction and Development



Source: EBRD Knowledge Economy Index (2019)

# The launch of the EBRD's Baltic Integrated Approach motivated by a number of challenges

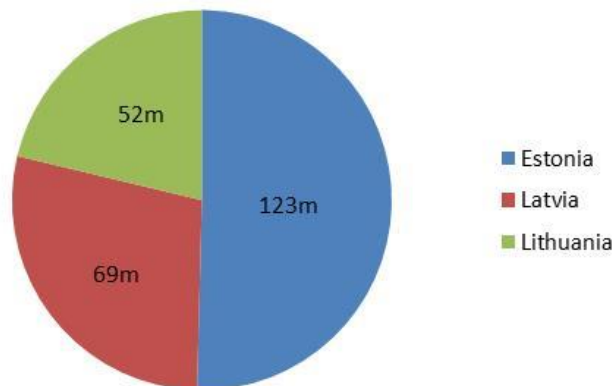
- **Lower availability of PE/VC funding** after the 2008 crisis and compared to developed markets (especially LV, LT)
- **Underdeveloped networks** (both within the region and compared with the rest of the world)
- **Limited availability of data / information** (for benchmarking / marketing the region / attracting new LPs)
- Need for targeted **capacity building** / training for the ecosystem stakeholders
- **Regulatory / legislative challenges**
- Limited **support for early stage development** / commercialisation of ideas



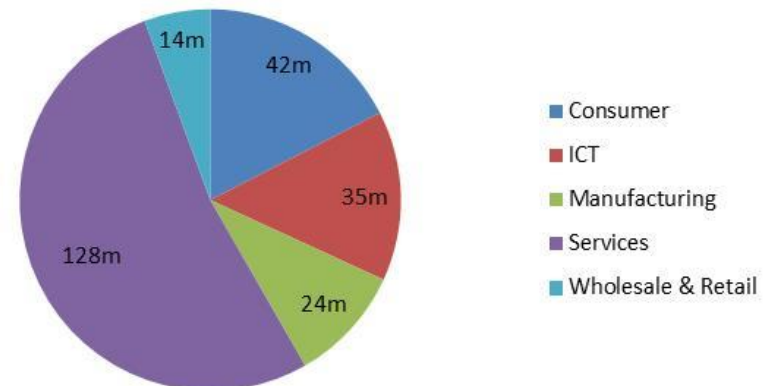
# EBRD has been actively supporting PE/VC in the Baltics through investments...

- **EUR 150 million** commitments to **10 Baltics focussed funds** with total capital of about EUR 600 million
- More than a dozen additional funds supported by the EBRD with a broader CEE remit have also invested in the Baltics
- **126 underlying investees**, of which **97 exited**.
- **Current portfolio of 29 companies** with value of **EUR 243 million**

Current portfolio value per country (EUR)



Current portfolio value per sector (EUR)



Data as of June 2018

# ... as well as non-investment activities under the EBRD's Baltic Integrated Approach

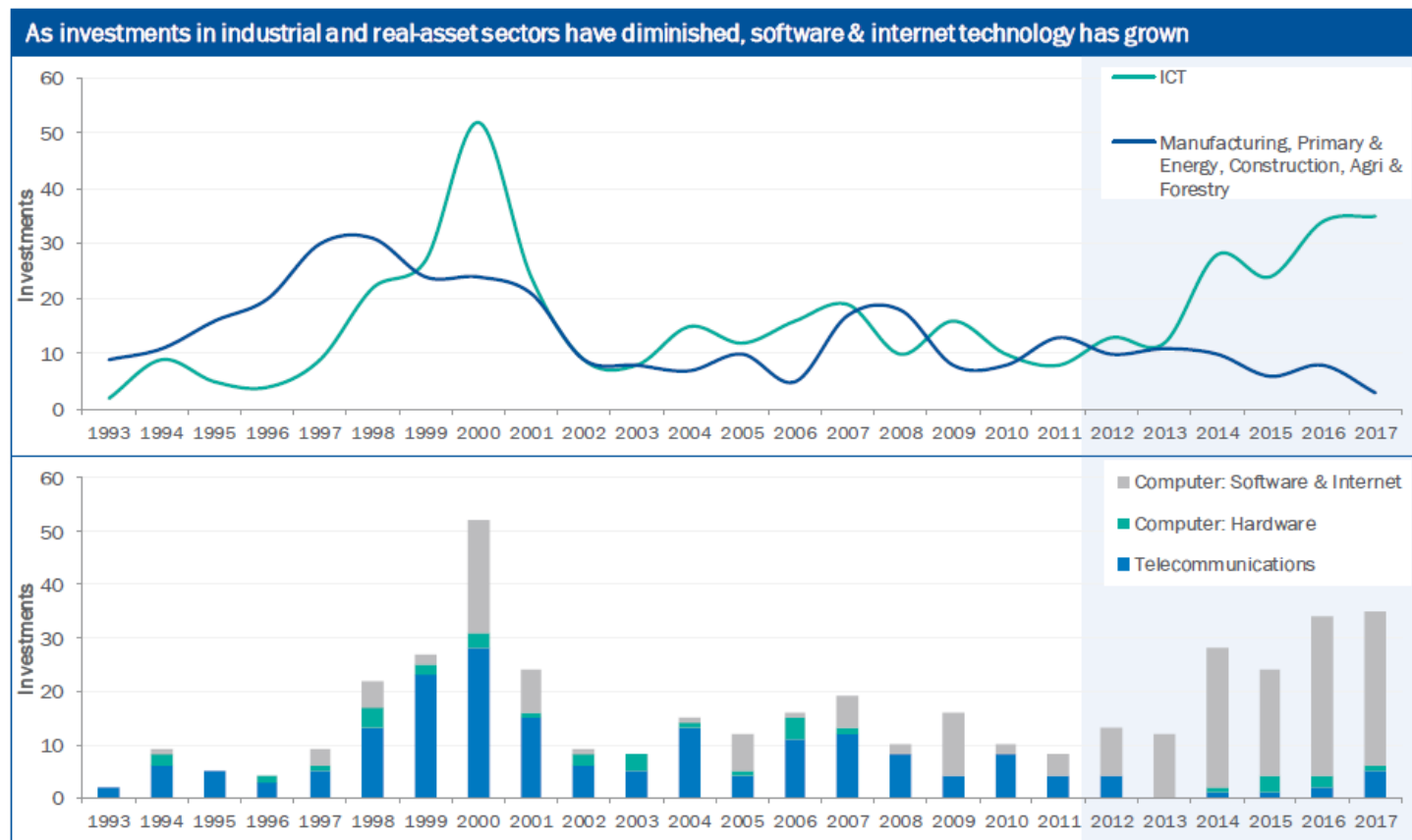
- GP & LP capacity building / training
- GP pitching workshop (EST, LIT, LAT)
- Review of the draft **collective investment vehicles law** (EST)
- Support for an **enhanced collaboration between VCAs**
- Review of the **procurement laws** (LAT & LIT)
- Support for the VCAs in preparing **outreach activities** to attract new LPs to the region
- **Cooperation agreement with INVEGA** for the implementation of risk capital instruments using funding from the ESIF programme



# What lies ahead – challenges remain...

- Further enhancing the **availability of market data** to enable more effective marketing of funds (for attracting new / large private LPs)
- Further **improving networks** within the Baltic region in order to realise synergies among market participants
- Further **strengthening integration** with other markets (Baltics, Nordics, CEE)
- Further strengthening the **linkages within the local innovation system** (i.e. linkages between business and academia, support for commercialisation)
- Rolling out **new strategies** and adapting to changing regulatory regimes

... opportunities continue to develop in sectors  
such as software & internet...



... sustainability is becoming an important focus for PE, driven by external pressure...

- Increased awareness of sustainability issues among LPs
- Growing regulatory and reporting requirements, such as:
  - EU Energy Efficiency Directive
  - EU Action Plan on Sustainable Finance
  - TCFD-Task Force on Climate Related Financial Disclosures

## ... as well as opportunities for value creation and risk mitigation

- **Potential equity uplift** due to investors' willingness to pay a premium, optimised operational/financial performance, and potentially lower cost of capital due to lower perceived business and operational risks
- **Examples from across sectors:**
  - Real estate: O&M costs cut by 10-15% through transition from reactive to predictive maintenance
  - Corporate sector: EBRD resource efficiency audits identified green investment opportunities averaging a 15-25% IRR / simple payback <5 years
- **PE uniquely positioned to drive sustainability improvements** (control rights, long enough holding period)

# ... resulting in a shift in the approach to sustainability

**Negative screens /  
focus on  
compliance**



**Positive focus on  
sustainability / source of  
competitive advantage**

- SRI investment booming – global AUM over USD 30 trillion by 2018
- Further efforts needed to support the scaling up of the green focus (e.g. in-house sustainability expertise, better measurement and reporting)

# EBRD has been ramping up green investments across sectors, including PE

- **EUR 31 billion of green financing** signed by EBRD between 2006 and June 2019
- EBRD's Green Economy Transition approach – target for green financing to represent at least **40% of total annual new investments by 2020**
- Sustainability in the core investment strategy of a **number of EBRD-supported sector funds**, including in the Baltics (BaltCap Infrastructure Fund, EfTEN Real Estate Fund IV)
- Generalist PE funds now also seek support for identifying and executing green investments as part of value creation plans for investee companies



# Thank you!



**European Bank**  
for Reconstruction and Development

Pavel Dvorak  
Principal Banker  
Equity Funds  
[dvorakp@ebrd.com](mailto:dvorakp@ebrd.com)

\*Disclaimer: the contents of this publication reflect the opinions of the author and do not necessarily reflect the views of the EBRD.

