

INTERVIEW – BGP&Global Strategy See CEE Private Equity Market Recovery Starting in Q2’11

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SOFIA (Bulgaria), October 15 (SeeNews) – Management consultants BGP&Global Strategy expect the private equity market in central and eastern Europe (CEE) will start recovering from the crisis in the second quarter of next year, a senior company official said.

“In the next year the level of transactions will increase substantially due to the high cash availability of private equity funds and the end of the investment phase for most of them,” Torsten Reiss, executive board member at BGP&Global Strategy, told SeeNews in an emailed interview following the CEE Private Equity 2010 conference held in Warsaw last week.

SeeNews was a media partner to the conference organised by EastEuro Link.

“Investors are generally more skeptical, but through proving concrete development strategies, based not only on cost-cutting, private equity funds will have the chance to reach soon the pre-crisis level. The capability of the management in turning around the current distressed assets will be the key driver for the next years' fundraising activity,” Reiss said.

During the crisis, fundraising activity has slowed down due to investors' uncertainty, in particular towards some countries in eastern and southern Europe. Often the successful track record of the investment team is not persuasive enough and investors are more demanding in terms of in-depth industry know-how, he added.

The impact of the financial crisis and the Basel III requirements have also been affecting the transaction leverage which has dropped substantially.

In order to reverse the negative trend and reduce risk, private equity funds will need to re-focus their investment strategies towards sectors in which they have the necessary know-how, or on those which create synergies with the existing assets in portfolio, Reiss said.

“In fact, CEE & SEE markets are relatively immature, in comparison with western European countries, and ‘traditional’ industries will play a relevant role for those private equity houses which will be able to optimize the efficiency and define clear strategic growth paths.”

Leading companies operating in the retail, food, logistics and construction materials sectors believe that capital expansion is needed to widen the geographical influence from regional to international level through investment in production capacity, a recent survey conducted by BGP&Global Strategy showed.

When comparing the markets of CEE and SEE, Reiss said, most private equity funds are more beware of the SEE region as the macroeconomic environment is slightly more negative there than in CEE and the respective national currencies are more vulnerable.

At the level of small and medium-sized companies, however, "those variables do not have a strong impact and an in-depth industry know-how will make the difference," he added.