EDISON

Is Private Equity

FY14 results

NAV stable after large dividend payment

Investment companies

Is Private Equity (ISGSY) aims to achieve capital appreciation and a dividend return by directly investing in Turkish companies. In the year to 31 December 2014 its NAV increased by 1% and it paid a dividend equivalent to 7.9% of the current share price. The fair value of the PE investments was flat during the year and financial income was largely offset by general administrative expenses and the dividend payment. Its discount to NAV at 37% is in line with its long-term average and gives investors some protection from the heightened uncertainty surrounding Turkey and investments in emerging markets.

To 31 December 2014	Price total return (%)	NAV total return* (%)	LPX Direct Index TR (%)	BIST100 Index TR (%)
One year	(7.6)	4.4	6.5	28.7
Three years	115.6	81.1	108.8	77.5
Five years	219.5	132.7	164.7	79.3
Seven years	309.2	195.3	76.8	80.1

Source: ISGSY and BIST 100 Index TR from 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. *ISGSY NAV is at fair value at 31 December 2013, see page 3 for calculation of historic series.

Full year 2014

At 31 December 2014 ISGSY's NAV was TRY264.4m, largely unchanged from the restated TRY261.8m at the end of December 2013. Interest income, together with gains on marketable securities, added TRY23.6m and was slightly more than the sum of the TRY0.7m fair value decline from its PE portfolio, the TRY8.2m of administrative costs and the TRY12m dividend paid in April 2014.

Investment flows: Acquisitions and disposals

There were no disposals made in 2014 as local and geopolitical uncertainties combined to make such actions problematic. In previous years ISGSY has been active, with 11 of its 15 investments exited. One new investment was made in Q414 when ISGSY paid TRY17.5m for a 28.5% stake in Radore, which provides data centre services in Turkey. ISGSY aims to increase the data centre capacity of the company and broaden its customer base by entering new markets and offering new value-added services. Two of ISGSY's five current investments were made towards the end of 2012, indicating the immaturity of the portfolio.

Valuation: Discount in line with average

ISGSY's current discount to NAV of 37% is in line with its average over the last seven years and some 30 percentage points more than global- and European-listed private equity companies. This relative discount offers investors protection from the heightened uncertainty surrounding Turkey as a result of local and geopolitical factors, not least of which are investors' concerns over emerging markets and the political turmoil in its neighbours Ukraine, Syria and Iraq.

3 March 2015

Price	**TRY2.21**
Market cap	**TRY165m**
NAV*	**TRY264m**
NAV per share*	**TRY3.53**
Discount to NAV	**37%**

*NAV at 31 December 2014.

FY14 dividend yield	8.1%
Shares in issue	74.7m
Free float	31.2%
Code	ISGSY
Primary exchange	BIST
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	0.0	(1.3)	8.7
Rel (local)	6.9	(0.2)	(20.8)
52-week high/low		TRY2.6	TRY2.1

Business description

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

Next event

H115 results	Estimated August 2015

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Edison profile page

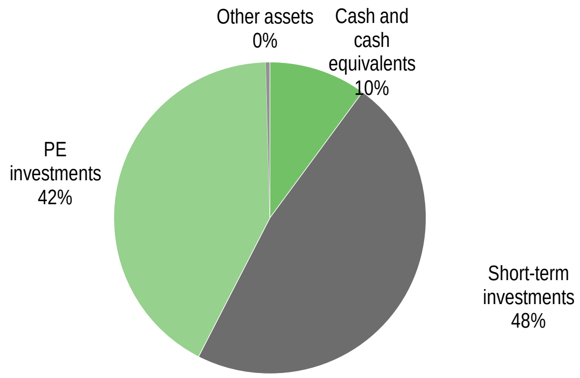
Is Private Equity is a research client of Edison Investment Research Limited

Exhibit 1: Is Private Equity at a glance

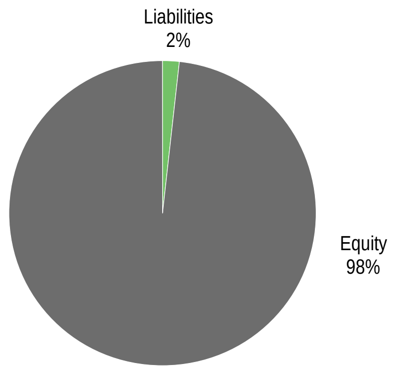
Investment objective and fund background	Recent news
Is Private Equity (ISGSY) was established in 2000 to invest in Turkey's growing mid-cap private companies.	October 2014:9m14 results. December 2014: Investment in Radore. January 2015: FY14 results.

Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	March 2015	P/E expense ratio	3%	Group	Is Private Equity
H1 results	Est August 2015	Net gearing	Net cash	Manager	Murat Ozgen (CEO)
Year end	December	Annual management fee	N/A	Address	Iş Kuleleri Kule 2, Kat:2 - 34330 Levent, Istanbul, Turkey
Next dividend	March 2015 (est)	Performance fee	N/A		
Launch date	2000	Company life	Unlimited	Phone	+90 0212 325 17 44
Wind-up	N/A	Loan facilities	N/A	Website	www.isgirisim.com.tr/EN/

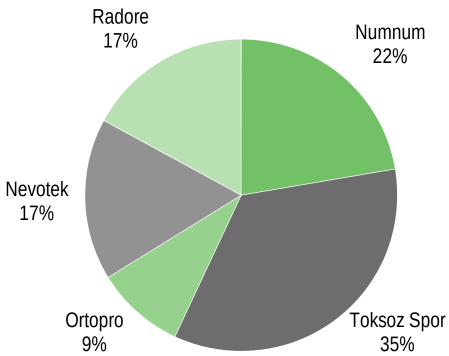
Assets at 31 December 2014



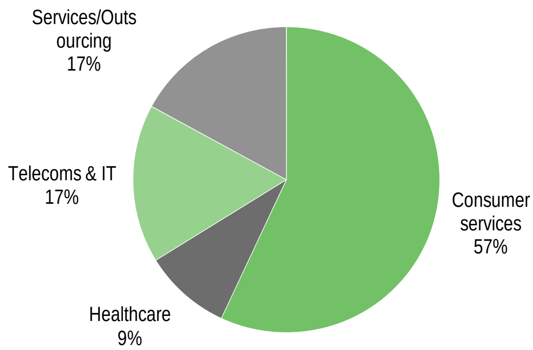
Equity and liabilities at 31 December 2014



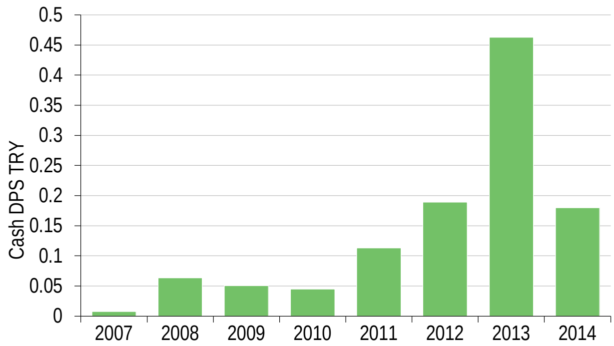
PE investments by company at 31 December 2014



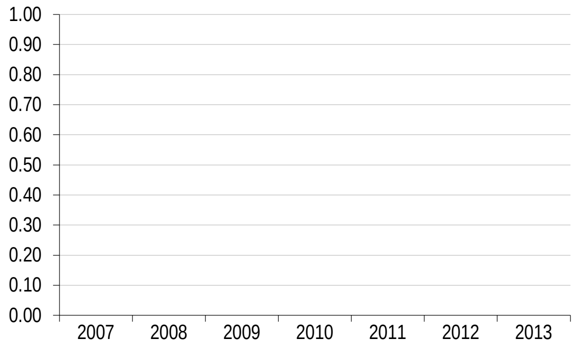
PE investment sector breakdown at 31 December 2014



Dividend history



Share buyback history



Source: ISGSY, Bloomberg, Edison Investment Research. Note: Dividend history has been adjusted to account for bonus issues, the last of which increased the share count from 66.6m to 74.7m and was announced at the AGM on 26 March 2014.

New accounting treatment

ISGSY produces its financial statements in accordance with Turkish Accounting Standards (TAS). Up until 1 January 2014 these required it to fully consolidate the subsidiaries in which it had a majority stake and use equity accounting (also called the equity pick-up method) for affiliates in which it had minority ownership.

To improve comparability with its private equity peers in other countries, ISGSY previously published a NAV figure that excluded the operating performance of its investments. This was referred to as the NAV on a 'solo' basis.

However, from 1 January 2014 it adopted various amendments for investments entities allowed under TFRS (Turkish Financial Reporting Standards) 10, which meant it no longer had to consolidate its majority-owned entities (Numnum, Ortopro, Toksoz Spor and Nevotek) and had to value them in its balance sheet at fair value. ISGSY adopted this amendment and since 1 January 2014 it has published its NAV at fair value. It also provided fair value NAV calculations for 31 December 2012 and 2013, but not for previous years. The following table shows the evolution of ISGSY NAV on the solo basis and the current fair value basis.

Exhibit 2: ISGSY NAV

TRYm	Solo basis	Published accounts
		Fair value
31/12/2012	208.7	206.3
31/12/2013	259.0	261.8

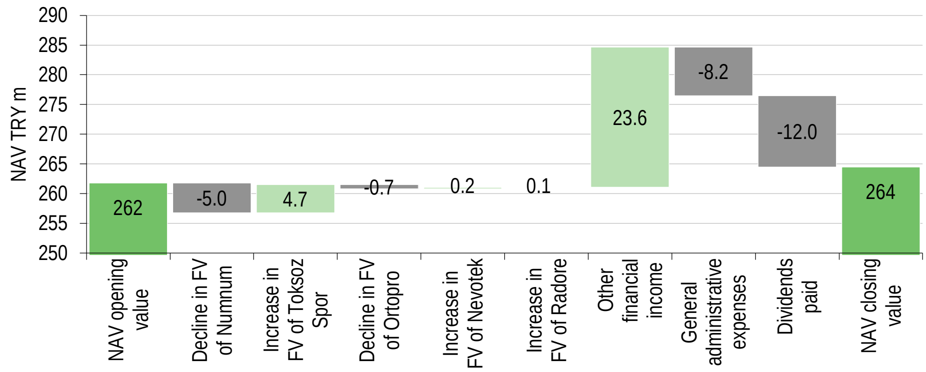
Source: ISGSY and Edison Investment Research

The fair value NAV for 2012 and 2013 is within 1% of the 'solo' figure that we previously used to calculate NAV performance and share price premiums or discounts to NAV for periods from 31 December 2012. However, before that time we have to recognise that the new data series may diverge from the 'solo' basis that was previously used and may therefore only give an approximate guide to valuation and performance before this date.

Movement in NAV in 2014

The restated NAV for ISGSY increased from TRY262m at 31 December 2013 to TRY264m at 31 December 2014, as we show in the following chart.

Exhibit 3: NAV movement at ISGSY in 2014*



Source: ISGSY, Edison Investment Research. Note: *Opening NAV as restated in 30 September 2014 quarterly report.

In aggregate there was a TRY0.7m decrease in the fair value of its investments recorded in profits in 2014, comprising a positive TRY4.7m at Toksoz Spor and declines of TRY5m at Numnum and TRY0.7m at Ortopro as well as small increases at Nevotek (TRY0.2m) and Radore (TRY0.1m).The other increases in NAV derive from interest income and net gains from its marketable securities, which at nearly 60% of the total still comprise the majority of its investment portfolio. General and administrative expenses of TRY8.2m for the year represent an expense ratio of 3%, which is comparable to other private equity companies under our coverage.

Investment strategy

ISGSY's investment philosophy is to help investee management teams with their long-term strategies, to realise their potential and create shareholder value. It does this by sourcing acquisitions for them, enhancing operational efficiencies, facilitating new market expansions and designing an optimal capital structure.

As regards its investment strategy, ISGSY has the following criteria:

- **Company size:** Mid-cap private companies.
- **Stage of development:** Expansion-stage and later-stage companies.
- **Characteristics:** History of increasing profitability and excellent growth prospects with a leading position or strong potential to become key players in their respective markets.
- **Geographic focus:** Companies headquartered in Turkey where a global reach is preferable.
- **Transaction type:** Growth equity (including industry consolidation), balance sheet restructurings and buy-outs.
- **Control:** Comfortable with both minority and majority positions.
- **Types of investments:** Equity, mezzanine
- **Transaction range:** US$5-20m per deal.
- **Target industries:** Large, rapidly growing or specialised markets with high barriers to entry and that are relatively immune to cyclicality and regulatory exposure.
- **Exit goal:** Between three and seven years.

It invests in companies with the following characteristics:

- attractive returns;
- high growth – organically or inorganically, in Turkey or abroad;
- operating profitably – either currently or potentially from operational improvements;
- a strong management team;
- sustainable competitive edge; and
- clear exit opportunities.

ISGSY has historically been sector agnostic, but for new investment opportunities it is showing a preference for the following sectors:

1. Retail
2. Branded FMCG (fast moving consumer goods)
3. Services
    a. Catering
    b. Security
    c. Facility management
    d. Logistics
    e. Business process outsourcing
4. Healthcare and pharmaceuticals
5. Building materials
6. Chemicals
7. Education
8. Tourism

9. Industrials with value-added export potential

Private equity investments

ISGSY has produced the following summary of its private equity investments.

Exhibit 4: ISGSY PE investments at 31 December 2014

	Acquisition date	Location	Sector	Share of capital (%)	Fair value, TRYm
Nevotek	30/09/2003	Turkey	Telecoms & IT	81.2	17.3
Ortopro	10/12/2007	Turkey	Healthcare	32.5	9.5
Toksoz Spor	13/11/2012	Turkey	Consumer	55.0	35.7
Numnum	05/12/2012	Turkey	Consumer	61.7	23.0
Radore	01/12/2014	Turkey	Services	28.5	17.6

Source: ISGSY and Edison Investment Research

It describes the investments as follows:

Nevotek

Nevotek, headquartered in Turkey, is a global player in IP convergence, covering IP telephony (IPT), IP TV and connected real estate technology for use in hospitality, healthcare, multi-tenanted real estate and public space management. Its platform allows the rapid development of unified applications across voice, data, video and building management. Nevotek has the largest client base in convergent IP with over 150 channel partners, 200,000 users and clients in 50 countries, including Holiday Inn, Crowne Plaza, Sheraton, US Air Force, W Hotels, Royal Caribbean Cruiseline, Le Meridien and SABIC.

Ortopro

Ortopro is a Turkish orthopaedic implant company. It runs a modern production facility with 2,750m^2 of closed space in Izmir. In addition to sales of its own brands in Turkey and international markets, Ortopro serves as a contract manufacturer to global orthopaedic companies. In 2014 Ortopro exported to more than 20 countries, representing 55% of its total revenues. It now offers a complete product portfolio to local hospitals through its 66 retailers and direct sales to more than 50 hospitals. Ortopro creates barriers to entry in its manufacturing product groups from its cost advantages and R&D. The production provides significant cost benefits compared to US and European players due to lower employee costs. Production in Turkey also has the advantage of a skilled labour force and rapid delivery time compared to Far-Eastern players.

Toksoz Spor

Toksoz Spor is a leading sporting goods retailer and wholesaler in Turkey. It is the Turkey-region distributor of global sports brands like Arena, Head, Umbro and O'Neill. Wholesale customers include hundreds of dealers over all of Turkey's cities, department stores, other sports retailer chains, sports clubs, universities and sports federations. Toksoz Spor sells more than 100 brands in its 25 retail stores located in 12 cities. It has become the multi-brand sports retailer with highest floor area (c 22,000sqm) in Turkey after the investment of Is Private Equity. The company also sells products under its own brand, Sportive. Sportive sales accounted for 12% of company's revenues in 2014.

Istanbul Food and Beverage Group (Numnum)

Istanbul Food and Beverage Group (IFBG) is a leading Turkish restaurant service and gastronomy company operating under five major brands, Mikla, Numnum, Trattoria Enzo, Terra Kitchen and Kronotrop.

Mikla is an upscale fine dining restaurant, a forefront of the contemporary dining scene of Istanbul, serving new Anatolian cusine in the historic Pera Region. Mikla's wine menu won an "Award of Excellence" from the wine magazine Wine Spectator for four consecutive years between 2011 and 2014. Numnum is a full-service casual restaurant chain, serving American/Italian cuisine. It operates 10 successful stores, six in Istanbul (Levent Kanyon, Umraniye Meydan, Bagdat Caddesi, Brandium Atasehir, Nisantasl and Akasya Acıbadem) and four franchise restaurants in Ankara (Panora, Gordion, G.O.P. and Tepe Prime). Trattoria Enzo opened its doors in 2014 in an upscale shopping mall of Istanbul Akasya AVM, and serves "home made" Italian food. Terra Kitchen, a casual self-service concept has the motto "eat well, feel good". Kronotrop is an upscale speciality coffee roastery and bar located in a trendy venue of Istanbul, Cihangir, and also operates a roasting facility, R&D and training centre in Maslak, Istanbul.

Radore

Radore provides data centre services in Turkey, including co-location, dedicated cloud, web-hosting and domain sales. Established in 2004, it offers data centre solutions to over 1,750 clients, including both individuals and corporations, to meet the emerging requirements of the growing data processing and internet economy in Turkey. Radore made its first data centre investment in 2005. According to Deloitte Technology Fast 50 rankings, Radore was the fastest growing data centre in Turkey in 2012 and 2013 and is also among the top 10 fastest growing technology companies in Turkey within the same period. Currently hosting more than 2,100 servers, and with the investment supporting a capacity of up to 10,000 servers, Radore will be one of the largest independent data centre companies in Turkey, in terms of revenues.

ISGSY expects the data centre market to expand with international demand in addition to the growing potential in Turkey. The growth in the sector is expected to be driven mainly through corporate companies' shift from internal data centres to external data centres. ISGSY aims to take Radore a step further in this rapidly growing sector by acquiring new customers and increasing its sales as a result of operational improvements, upgrading services/infrastructure, completion of ongoing investments and evaluation of new investment opportunities. With the new investments, Radore will be one of the largest independent data centres in Turkey, and consequently in a position to shape the growth in the sector.

UnQuoted investment valuation

An independent advisory company, Ernst & Young, determines the fair value of these unquoted investments, mainly through the use of discounted cash flow valuations. Their valuation models consider the present value of the expected payments, discounted using risk adjusted discount rates. The expected payments are determined by considering the possible scenarios of forecast earnings before interest tax depreciation and amortisation ('EBITDA'), the amount to be paid under each scenario and the probability of each scenario. The estimated terminal annual revenue growth rates are between 2.10-3.42%, the estimated EBITDA margin are between 10.2-41.68%, and the estimated discount rates are between 12.1-18.2%. Overall, the portfolio is valued at a 2015e EV/EBITDA of 8.3x.

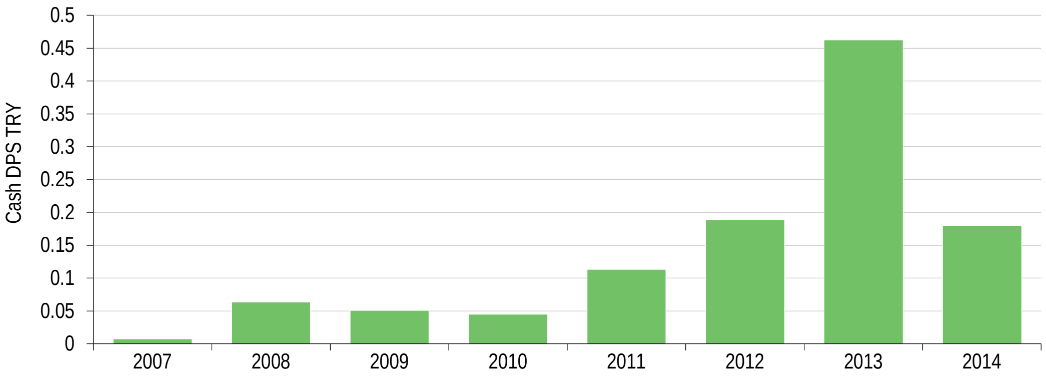
Since inception in 2004, ISGSY has completed 11 exits, for which management calculates an average IRR of 26.5% and an average cash exit multiple of 2.3x, both on a US dollar basis.

In July 2013 ISGSY realised its investment in Aras Kargo and earned an IRR of 165.0% in US$ terms on its November 2011 investment of TRY17.5m. IAIR Group (International Alternative Investment Review) awarded ISGSY with Excellence in Private Equity due to its success with the Aras Kargo investment. ISGSY has exited 11 of the total 15 investments it has made. Of the current five investments, two were made towards the end of 2012 and one at the end of 2014, showing the comparative immaturity of the portfolio. In December, ISGSY announced it had made a major investment in Radore, a Turkish data centre provider. ISGSY acquired 28.5% of the company for an investment amount of TRY17.5m (TRY8.75m cash-out and TRY8.75m cash-in).

Dividend policy

ISGSY's dividend policy is to distribute at least 30% of distributable profit as bonus shares and/or cash. Distribution decisions are made by a general assembly of shareholders on proposals put by the board of directors. Among the factors they consider in making their proposals are the income demands of shareholders, the general profitability of the company, the capital requirements of the company to grow its activities and the desire to not prematurely exit an investment before the maximum return is achieved.

Exhibit 5: ISGSY cash DPS



Source: Bloomberg

ISGSY has paid a cash dividend every year since 2007, with the 2013 dividend being particularly high as it distributed some of the large gains it made from selling its stake in Aras Kargo in that year. In 2014 it made cash dividend payments of TRY0.18, equivalent to 8.1% of the current share price. If the company were not able to realise any investment gains in 2015 it would need an investment yield of around 13% to maintain its current dividend without depleting capital. This is comparable to the yield it earned in 2014. Turkey's national Ekonomist magazine ranked ISGSY as the highest-yielding listed stock in the country for the last five-year average in its publication of 8 February 2015.

Sensitivities

Current uncertainties around long-term Turkish growth

Emerging markets association

Turkey is an emerging market and investors are attracted to it for the long-term growth prospects that such a market brings. ISGSY offers investors not just the opportunities from being a private equity investor but also the potential from operating in an emerging market with superior long-term growth potential.

However, in the immediate future, Turkey's status as an emerging market has a negative connotation for investors. There are concerns that when developed world interest rates rise, investors based in such countries may withdraw money from emerging markets, including Turkey, because they were only attracted by the higher potential returns on offer there. Turkey has been described as one of the "fragile five" emerging markets, which are countries with large current account deficits that rely heavily on external financing, so Turkey has been particularly vulnerable to this sentiment. This would be negative for ISGSY, as it could make the development of its investee companies slower than would otherwise be the case, and it could make profitable exits from investments harder to achieve. On the other hand, a depressed market with firms having problems accessing funds could be in ISGSY's long-term interests because it may be able to acquire companies at a more beneficial price. It has ample resources to make investments as PE investments only account for around 40% of its balance sheet after the Radore investment, with the rest invested in marketable securities.

The recent fall in the oil price will reduce the Turkish current account deficit and depress inflation and so is beneficial for the Turkish economy.

Geopolitical risks

Turkey is surrounded by countries in political conflict, including Russia and Ukraine to the north and Iraq and Syria to the south. ISGSY's PE investments do not have much trade with these countries, but their problems may spill over into Turkey and cause political and macroeconomic risks.

Balance sheet

The table below shows the balance sheet at the end of December 2014. The major items are short-term investments, mainly in government and private sector bonds at 47% of the balance sheet total and the private equity investments at 42% of the total. Both of these investments are valued at "fair value through the profit and loss account", so changes in the value of investments are recorded in the profit and loss account.

The low proportion of its balance sheet invested in private equity means that ISGSY has the potential to make additional PE investments if it finds the right opportunities. Almost all the assets are funded by shareholders' equity and it has no financial liabilities.

Exhibit 6: ISGSY balance sheet at 31 December 2014

	TRYm	%
Cash and cash equivalents	27.1	10%
Short-term investments		
Private sector bonds	64.1	
Government bonds	36.2	
Investments funds	22.1	
Shares quoted on stock exchange	5.4	
	127.8	47%
Other	0.7	
Current assets	155.6	58%
Long-term investments		
PE investments	113.1	42%
Other	0.4	
Non-current assets	113.5	42%
Total assets	269.1	100%
Liabilities	4.7	2%
Equity	264.4	98%
Equity and liabilities	269.1	100%

Source: ISGSY, Edison Investment Research

Valuation

ISGSY lacks a clear comparator peer group in Turkey, so we have chosen to compare it with a selected group of closed-end private equity funds in emerging markets, as we show in the following table.

Exhibit 7: Selection of closed-end quoted emerging market private equity companies

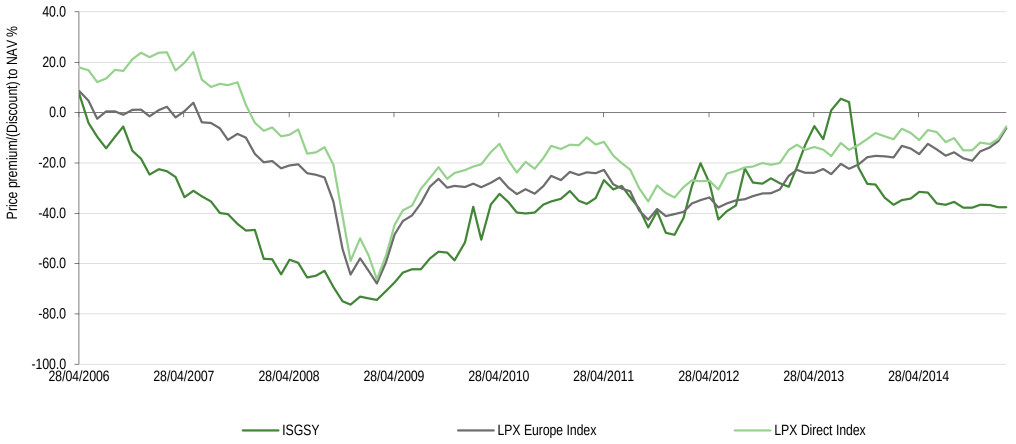
Fund name	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (ex par)	Latest ongoing charge
Adamas Finance Asia Limited Ord	91.3	(62.9)	(84.0)	(84.2)	6.8	3.03
Arc Capital Holdings Ord	25.1	(57.5)	(67.1)	(74.8)	(48.0)	9.60
China Assets Ord	25.7	37.4	23.2	11.4	(80.2)	1.83
East Capital Explorer Ord	111.3	(0.6)	(6.8)	(21.0)	(50.5)	3.28
IS Private Equity	47.6	4.6	78.7	129.5	(37.0)	3.00
Kubera Cross-Border Ord	18.0	5.3	(38.1)	(34.9)	(51.8)	3.61
Origo Partners Ord	21.1	(33.5)	(64.2)	(58.8)	(62.5)	5.80
Symphony International Holding Ord	281.2	32.3	55.5	68.8	(41.0)	2.07
Simple average	77.7	(9.4)	(12.8)	(8.0)	(46.7)	17.9
Weighted average		3.9	12.6	19.4	(38.4)	18.2

Source: Morningstar, Edison Investment Research. Note: Prices at 27 February 2015.

The discount to NAV at which ISGSY is currently trading is comparable to the average in this selection, though the growth in NAV over the last one, three and five years is noticeably better than most.

The discount at which ISGSY is currently trading is higher than listed private equity companies in Europe and globally. In the chart below we show the LPX Europe Index discount and the LPX Direct Index discount; the former measures quote private equity discounts in Europe and the latter globally.

Exhibit 8: Discount to NAV persists



Source: LPX, Bloomberg, company data

ISGSY's current discount to NAV of 37% is in line with its average over the last seven years and some 30 percentage points more than global- and European-listed private equity companies.

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