

Continuing to add value

IS Private Equity (ISGSY) has recorded its strongest-ever set of first half results mainly due to its profitable exit of ODE Yalitim in March. It also agreed to sell one more investment in August and is in final discussions to make a new investment. Since its inception in 2000, ISGSY has made 13 investments and completed eight profitable exits (one investment and one exit are yet to be finalised) as of August 2012. The company reports that these eight exits have achieved an average IRR of c 23% (on a US-dollar basis) and an average cash exit multiple of 1.9x. Well-timed exits continue to bolster ISGSY's already strong balance sheet, providing ISGSY with ample cash to capitalise on investment opportunities.

12 months ending	Total share return (%)	Total NAV return (%)	LPX Direct (%)	ISE 100 Index (%)
08/09	35.4	6.8	(27.5)	19.6
08/10	57.3	8.4	15.4	31.4
08/11	10.7	10.0	31.2	(8.1)
08/12	70.1	23.5	8.1	27.9

Source: ISGSY, 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.

Portfolio activity

In March, ISGSY sold its 17% stake in ODE Yalitim, an insulation materials manufacturer, for US\$10.5m, generating a profit of TRY12.4m net profit (equivalent to c US\$6.9m at current exchange rates). In August it agreed to sell its 6.7% position in Havas, an airport ground-handling service provider, for €15.2m. Completion is expected by year end, generating significant profits for ISGSY. Both sales are to the respective majority shareholders and reinforce ISGSY's leading position in terms of the number of private equity (PE) transactions completed in Turkey. In June, ISGSY agreed its fourteenth investment since launch in Toksöz Spor (www.toksozspor.com), a leading sporting goods retailer in Turkey. It plans to invest TRY23.9m for a 51% stake and expects to complete by year end.

New investment opportunities

The Turkish PE market is continuing to grow due to (i) demand for financing that the banks cannot meet on their own; (ii) exit needs of the incumbent shareholders both as a factor of family-owned companies' succession planning and also straightforward cash-out route; and (iii) increasing need of management know how. With its robust balance sheet, experienced team and extensive network, ISGSY remains well positioned to capitalise on these investment opportunities.

Valuation

Based on ISGSY's current share price, it trades at a discount of 24% to its inflation-adjusted NAV, which is not marked to market. Although this discount has narrowed over the past two years, we believe it still does not reflect the strong track record of the company (eight exits to date, with an average US dollar IRR of 23%) or the potential within the remaining portfolio companies. In addition, ISGSY's FY12 dividend yield of 9.1% is considerably higher than the Turkish average of 2.0%.

Private equity

11 September 2012

Price TRY2.43
Market cap TRY140.8m
NAV TRY184.8m

NAV per share (TRY) 3.19*
Discount to NAV 24%*

* Last published NAV as at 30 Jun 2012.

Shares in issue 58.0m
Free float 31.2%
Code ISGSY-TI
Primary exchange ISE
Other exchanges N/A

Share price performance



Three-year cumulative performance



52-week high/low TRY65 TRY1.60

Next event

Q3 IMS Nov 2012 (est.)

Analysts

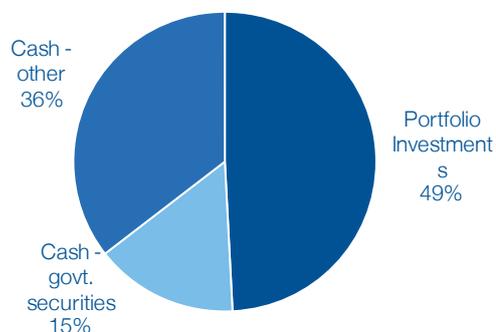
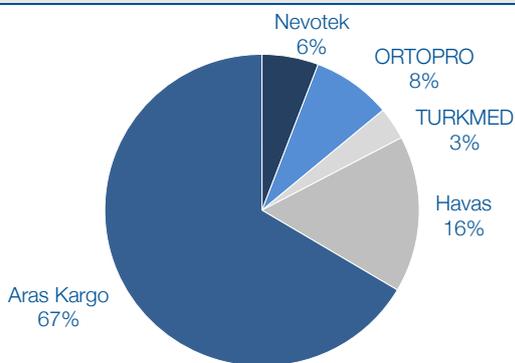
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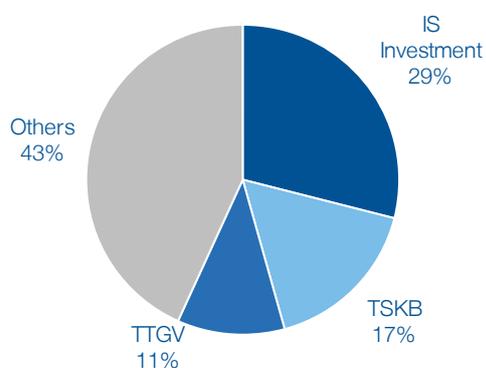
[Edison profile page](#)

Exhibit 1: IS Private Equity at a glance

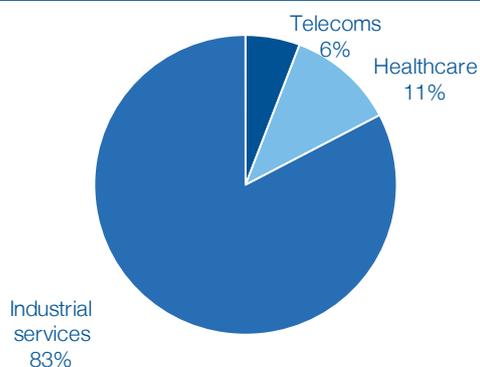
Investment objective and fund background				Recent news	
IS Private Equity (ISGSY) was established in 2000 to invest in Turkey's growing mid-cap private companies.				28 Jun 2012 – Investment in Toksoz Spor announced 29 Aug 2012 – Agreement with TAV Airports for the sale of Havas	
Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	Apr 2013 (est.)	Total expense ratio	3.4%	Group	IS Private Equity
Q3 IMS	Nov 2012 (est.)	Net gearing	Net cash	Manager	Team managed
Year end	December	Annual mgmt fee	N/A	Address	İş Kuleleri Kule 2, Kat:2 - 34330 Levent - Istanbul - Turkey
Dividend	May 2013 (est.)	Performance fee	N/A	Phone	+90 0212 325 17 44
Launch date	2000	Company life	Unlimited	Website	http://www.isgirisim.com.tr/EN/
Wind-up	N/A	Loan facilities	N/A		
Investment portfolio (as at 30 June 2012)				Total portfolio breakdown (as at 30 June 2012)	



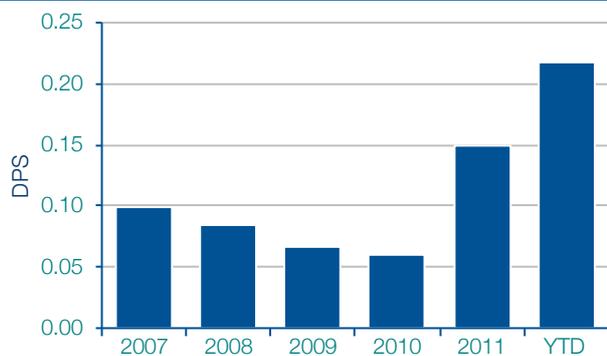
Shareholder base (as at 30 June 2012)



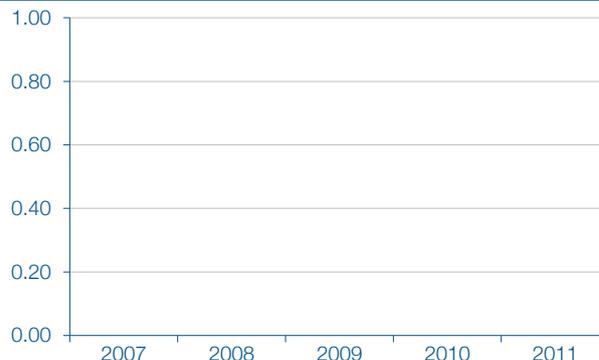
Investment sector breakdown (as at 30 June 2012)



Dividend history



Share buyback history



Source: ISGSY, Edison Investment Research

H1 update

Portfolio activity

ISGSY has a successful record of exits from its investments, the best measure of its success in private equity portfolio management. So far in 2012, it has completed one in March (ODE Yalitim) and has recently agreed another disposal (Havas), which is expected to be completed by year end. The ODE Yalitim brings the total number of completed exits to eight since its inception and has helped ISGSY record its strongest-ever set of H1 results.

In March 2012, ISGSY sold its 17% stake in ODE Yalitim, an insulation materials manufacturer, for \$10.5m, generating a 17.0% IRR and 2.1x cash multiple. Over the last four years, ODE Yalitim has grown revenues by 170% (US\$), increased employees by 65% and doubled exports (US\$).

In June 2012, ISGSY signed a share purchase agreement with Toksoz Spor Malzemeleri Ticaret Anonim Şirketi ("Toksoz Spor") for 51% of the company for TRY23.9m (equivalent to c US\$13.3m at current exchange rates). Toksoz Spor is a leading sporting goods retailer and wholesaler in Turkey for brands such as Nike, Umbro, Arena, Head and Jack Wolfskin. The company has 10 retail shops in Turkey as well as an e-commerce business (www.spormarketim.com). This deal is expected to be finalised by the end of the year.

In August 2012, ISGSY agreed to sell its 6.7% position in Havas back to TAV Airports Holding (the majority shareholder) for EUR15.2m. Using exchange rates at the closing date, this equates to a c 25% IRR and a c 1.8x cash multiple. Havas is Turkey's first and biggest ground-handling services corporation, which currently serves at 23 airports/airdromes. Since 2009, Havas has increased the number of aircraft served by c 57% and the number of countries from two to five.

Continuing to add value

The PE market in Turkey remains underdeveloped relative to Western markets. According to research conducted by EVCA in 2010, c 0.1% of Turkey's GDP was invested in private equity relative to Europe (0.3%) and the UK (0.8%). This creates a sustainable growth opportunity for ISGSY to capitalise from the development and expansion of the private equity market in Turkey, as discussed in more detail in our [Outlook report dated 4 May](#). ISGSY believes it does not have any significant competitors, but differentiates itself from its peers by the following factors:

- ISGSY's low-end mid-cap focus is a clear competitive advantage as it can take equity positions in the \$7-20m range. Most of its competitors are mid- to large-cap funds that have a minimum investment size of \$25m. ISGSY's local presence gives it access to smaller, often family-owned businesses seeking additional finance to fund growth and manage succession issues.
- As a result, there is less competition for its targets; it has never been in a competitive auction for an investment target, and one of its exit routes is to one of the larger/late-stage private equity funds.
- Most private equity funds (especially non-Turkish ones) require majority stakes in investee companies. ISGSY is happy to take non-controlling stakes (although it has taken majority stakes in two of its 13 investments), with similar levels of downside protection as if it held a majority.
- Most private equity funds target buyout deals, but ISGSY is largely growth focused.
- ISGSY has a strong advantage in the Is Bank brand name. Investee companies feel it is trustworthy, opens doors and has a good track record and strong visibility.
- ISGSY has ten investment professionals with experience in project finance, consulting, strategic planning, research, corporate finance and Turkish industry.

Current portfolio

ISGSY's current portfolio consists of five core investments, with a total combined investment value of US\$32.1m. As at 30 August 2012, ISGSY had successfully completed eight exits (nine including Havas), generating an average IRR of c 23% and cash exit multiple of 1.9x.

Exhibit 2: Current portfolio

Company name	Business description	Investment rationale	Investment date	Investment amount	Shareholding	Status	Website
Nevotek	IP convergence company	Capitalise on the boost in the IP telephony market, through development of technology approved and supported by Cisco, LG and Avaya.	Between 2003-2006 (five tranches)	\$3.0m	81.2%	Current	www.nevotek.com
Ortopro	Manufacturer and distributor of orthopaedic implants	Use Turkey as a low-cost, high-skill manufacturer for Europe. Leading local manufacturer in the market.	2007	\$6.0m	32.5%	Current	www.ortopro.com.tr
Turkmed	Provider of renal care and dialysis services	One of the most important players in Turkey. High projected liquidity. The Turkish dialysis sector was the world's ninth largest in 2007.	2007	\$2.5m	25.8%	Current	www.turkmeddiyaliz.com
Havas	Ground-handling services	Turkish air transportation support market. Capitalising on the growth of Turkish Airlines.	2010	\$10.8m	6.7%	Current	www.havas.com.tr
Aras Kargo	Parcel delivery services/ services	Realise its growth potential and focus on efficiency-enhancing measures to solidify its market share as the second-largest in the sector.	2011	\$9.8m	20.0%	Current	www.araskargo.com.tr
Total				\$32.1m			
Source: ISGSY							

Macroeconomic outlook

Turkey's economic growth is expected to slow to 4% (real GDP growth) in 2012, from 8.5% in 2011. Despite this, it has been able to lower its current account deficit and reduce inflation from 11.1% in April 2012 to 8.9% in June 2012. However, this may reverse over coming months if oil prices continue to rise, due to the country's dependency on imported energy.

Exhibit 3: Financial summary

	TRYm	2008	2009	2010	2011	H1 2012
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		26.4	8.2	17.1	76.0	31.2
Cost of Sales		(8.3)	(1.9)	(5.3)	(18.9)	(12.0)
Gross Profit		18.0	6.4	11.8	57.0	19.2
EBITDA		10.9	(2.5)	0.8	40.0	14.4
Operating Profit (before GW and except.)		10.9	(2.5)	0.8	40.0	14.4
Intangible Amortisation		(0.6)	(0.5)	(0.3)	(0.1)	0.0
Exceptionals		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Operating Profit		10.3	(3.0)	0.5	39.9	14.4
Share in net profit / (loss) of equity investments		(1.4)	(4.8)	3.3	(4.2)	4.0
Net Interest		11.2	16.0	8.1	6.6	7.3
Profit Before Tax (norm)		20.7	8.7	12.1	42.4	25.7
Profit Before Tax (FRS 3)		20.1	8.2	11.8	42.4	25.7
Tax		0.0	0.0	0.0	(0.1)	0.4
Profit After Tax (norm)		20.7	8.7	12.1	42.3	26.0
Profit After Tax (FRS 3)		20.1	8.2	11.8	42.2	26.0
Average Number of Shares Outstanding (000s)		58.0	58.0	58.0	58.0	58.0
EPS - normalised (TRY)		0.35	0.15	0.21	0.73	0.41
EPS - FRS 3 (TRY)		0.34	0.14	0.20	0.73	0.41
Dividend per share (TRY)		0.07	0.06	0.05	0.13	0.22
Gross Margin (%)		68.3	77.2	68.9	75.1	61.6
EBITDA Margin (%)		41.5	(30.5)	4.6	52.7	46.4
Operating Margin (before GW and except.) (%)		41.5	(30.5)	4.6	52.7	46.4
BALANCE SHEET						
Fixed Assets		42.1	36.7	54.2	51.4	64.2
Intangible Assets		1.0	0.5	0.1	0.0	11.9
Tangible Assets		0.2	0.1	0.1	0.2	5.1
Investments		40.9	36.0	53.9	51.1	45.9
Other		0.0	0.0	0.0	0.0	1.3
Current Assets		84.6	94.7	86.4	125.0	163.1
Stocks		0.0	0.1	0.2	0.3	12.2
Debtors		7.8	7.9	8.7	9.0	23.3
Cash		12.3	9.5	14.4	40.2	54.6
Financial investments		64.5	77.3	63.1	75.6	73.0
Current Liabilities		(2.3)	(2.3)	(2.0)	(4.1)	(24.3)
Creditors		(1.7)	(1.1)	(1.4)	(2.4)	(13.7)
Short term borrowings		(0.6)	(1.2)	(0.6)	(1.8)	(10.6)
Long Term Liabilities		(0.3)	(0.1)	(0.4)	(0.7)	(2.5)
Long term borrowings		(0.2)	(0.0)	(0.2)	(0.1)	(1.9)
Trade payables		0.0	0.0	(0.1)	(0.1)	(0.1)
Other long term liabilities		(0.0)	(0.0)	(0.1)	(0.5)	(0.5)
Shareholders Equity		124.1	129.0	138.2	171.5	200.4

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