IS Private Equity

Investment exit

Aras Kargo exit delivers record profits

Investment companies

Profitable exits continue to provide Is Private Equity (ISGSY) with ample cash to capitalise on new investment opportunities. The recently announced sale of Aras Kargo was the group's most profitable to date, generating an IRR of 165% in US$ terms. These realised gains have enabled ISGSY to maintain an above average dividend yield of 9% (trailing 12 months). ISGSY now trades at a 2% premium to its reported NAV but a 27% discount to adjusted NAV reflecting the sale of Aras Kargo.

	Price total return (%)	NAV total return* (%)	LPX Direct Index TR (%)	ISE 100 Index TR (%)
One year	85.4	10.9	45.4	16.1
Three years	175.3	50.1	88.5	30.5
Five years	505.5	77.5	63.9	94.0
Seven years	250.9	146.3	33.7	138.3

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. NAV total return is adjusted for inflation, but not marked-to-market. Data as at 31 July 2013. *Based on most recent published NAV of 30 June 2013 and adjusted for dividends.

Record returns set to be broken

In July ISGSY completed the sale of Aras Kargo to Austria Post, generating US$42m in profits and an IRR of 165% (5.2x money multiple). This represents ISGSY's most profitable realisation to date and the proceeds already eclipse the total record profits earned from exits in 2012. This should more than offset an expected fall in the profitability of its investments in government bonds due to the lower level of interest rates.

Opportunity to grow market leadership position

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 a straightforward cash-out route; (iii) increasing need of management know-how; and (iv) favourable tax regimes. With its robust balance sheet, experienced team and extensive relationship network, ISGSY remains well positioned to capitalise on these opportunities and to grow its already dominant market share position.

Valuation: Premium reflects profitable realisations

Adjusting for the sale of Aras Kargo, ISGSY trades at a 27% discount to its adjusted NAV (TRY4.08), which is not marked-to-market. This is wider than the LPX Direct Index, which trades at a 14% discount to NAV but in line with the LPX Europe Index (22% discount). We believe this discount is unjustified given the company's strong track record (10 exits completed to date, with an average US$ IRR of 27.4%) and the potential in the remaining portfolio companies as illustrated by the exit of Aras Kargo.

30 August 2013

Price	**TRY3.00**
Market cap	**TRY200m**

Dividend yield*	9%
*Trailing 12m dividend of TRY17.5m.	
NAV per share*	2.86
*Last published 30 June 2013.	
Shares in issue	66.7m
Free float	31.2%
Code	ISGSY
Primary exchange	ISE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.3)	12.4	45.6
Rel (local)	8.4	47.6	45.0
52-week high/low		TRY3.45	TRY2.35

Business description

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

Next events

Q3 IMS	November 2013 (estimate)

Analysts

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Edison profile page

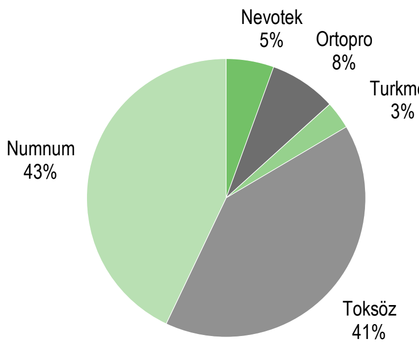
IS Private Equity is a research client of Edison Investment Research Limited

Exhibit 1: IS Private Equity at a glance

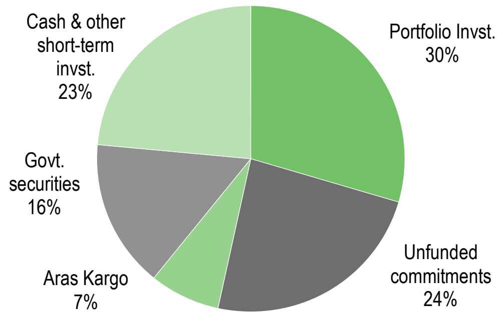
Investment objective and fund background	Recent news
ISGSY was established in 2000 to invest in Turkey's growing mid-cap private companies.	June 2013: Sale of Aras Kargo announced April 2013: FY12 results

Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	May 2014	Ongoing charges	3.8%	Group	Is Private Equity
H1 results	Est August 2014	Net gearing	Net cash	Manager	Team managed
Year end	December	Annual mgmt fee	N/A	Address	Iş Kuleleri Kule 2, Kat:2 - 34330 Levent - Istanbul - Turkey
Next dividend	May 2014	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/

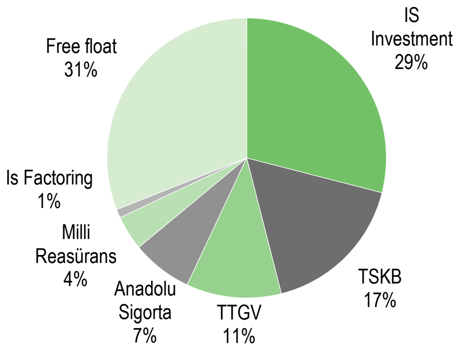
Investment portfolio (as at June 2013, adjusted for Aras Kargo sale)



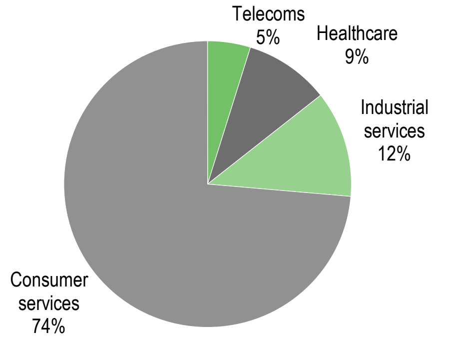
Total portfolio breakdown (as at 30 June 2013)



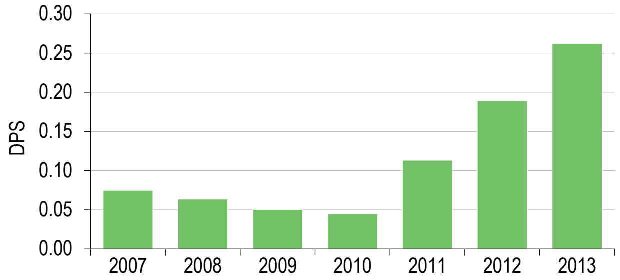
Shareholder base (as at 30 June 2013)



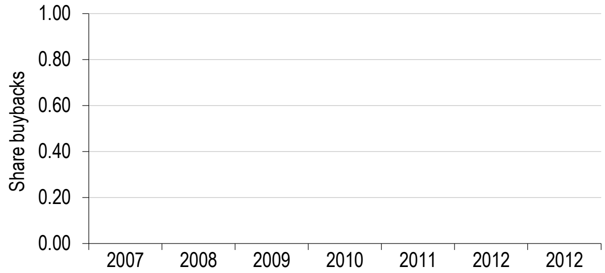
Investment sector breakdown (as at 30 June 2013)



Dividend history



Share buyback history



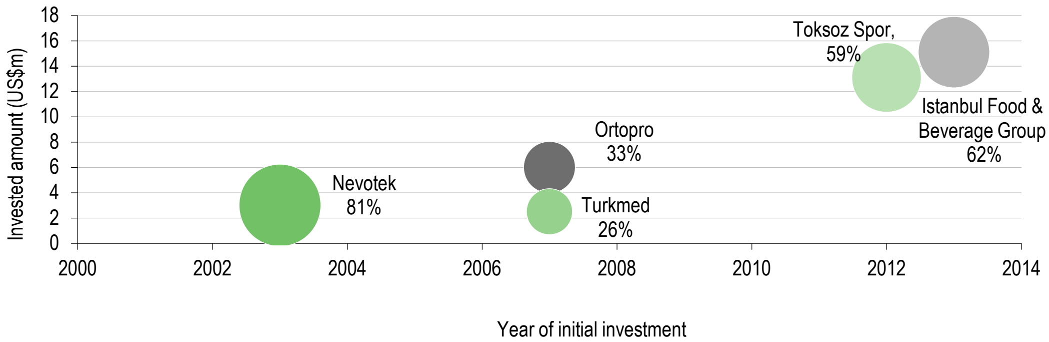
Source: ISGSY, Edison Investment Research. Note: Dividend history has been adjusted to account for the 15% bonus issue in 2012 and the 15% bonus issue in June 2013.

Investment summary

Well-balanced portfolio with cash still to invest

ISGSY provides investment funds and advice to Turkish companies. Since incorporation, ISGSY has invested a total of US$110.0m in 15 companies and has realised 10 exits (US$166.7m), which is twice as many as the next leading PE fund in Turkey. Including the proceeds from the sale of Aras Kargo, we estimate ISGSY has c US$60m available to fund new investments assuming TRY60m of equity options are exercised (see page 5). ISGSY is targeting two to three investments with an equity ticket size of US$20-30m over the next two years.

Exhibit 2: Current portfolio is relatively well balanced by age



Source: Company data. Note: Bubble = shareholding %.

Economic and political risks remain high

Turkey remains heavily dependent on capital inflows, which are largely driven by foreign investors' confidence. These flows have recently been negatively affected by talk of a possible reduction in quantitative easing measures in the US, slowing economic growth in Turkey and a resurgence in domestic political risks. With the next elections scheduled for 2014/15, political risk is set to remain at the forefront of many investors' minds.

Premium valuation following strong recent performance

ISGSY's shares trade at a 5% premium to its NAV, which is inflation adjusted, but the investment values are not marked-to-market (December 2012: 31% discount). However, adjusting for the recent sale of Aras Kargo (July 2013), ISGSY trades at a 27% discount to its adjusted NAV (TRY4.08). Supported by a steady stream of realisations, ISGSY has also been able to maintain one of the highest yields on the Istanbul Stock Exchange (trailing 12-month dividend yield of 9% vs Turkish average of 2.0%).

Exhibit 3: ISGSY has maintained its strong long-term performance record

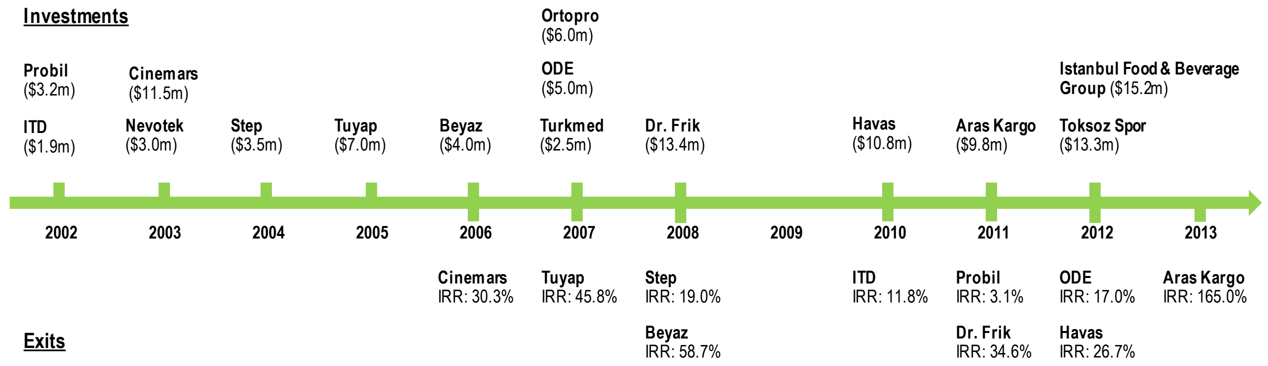
	3 months	6 months	1 year	3 years	5 years	7 years
ISGSY Price TR	10.3%	48.5%	85.4%	175.3%	505.5%	250.9%
ISGSY NAV TR	(1.7%)	(1.8%)	10.9%	50.1%	77.5%	146.3%
ISE 100 TR	(14.1%)	(5.3%)	16.1%	30.5%	94.0%	138.3%
FTSE All share TR	10.3%	15.0%	30.3%	79.5%	96.9%	59.9%
LPX Direct TR	11.3%	20.8%	45.4%	88.5%	63.9%	33.7%

Source: Company Data, Bloomberg. Note: Data as at 31 July 2013.

Record returns set to be broken

ISGSY was founded by a consortium led by its parent company Is Bank, the largest bank in Turkey with an asset base of US$84.5bn as at 31 December 2012. The Is Bank group holds 57.7% across its affiliated companies. Since inception, ISGSY has made 15 investments and successfully exited 10, generating an average IRR of 27.4%.

Exhibit 4: Steady stream of investments and realisations



Source: Company data

Record year for profits in 2012…

Accounting rules require that four of ISGSY's investments are consolidated into the group consolidated accounts (three where it owns a majority and one where it owns a minority but exercises control). Excluding these, ISGSY's income statement is driven by realisations (revenues), less the carrying value of the investment (cost of goods sold), dividend income from investments and net finance income. ISGSY's underlying profit before tax increased 15% to TRY48.4m due to two realisations – an IFRS adjusted realised gain of TRY25.4m, and the strong performance of liquid assets (TRY20.8m). The two exits generated an average cash exit multiple of 1.9x, while ISGSY's sizeable position in government bonds representing liquid cash reserves benefited from falling interest rates.

Exhibit 5: Record profits hidden by consolidated subsidiaries

	2011			2012			H113		
	Private equity	Subs	All	Private equity	Subs	All	Private equity	Subs	All
Revenue	62.0	14.0	76.0	54.2	51.1	105.2	0.1	80.3	80.4
Cost of goods sold	(15.2)	(3.7)	(18.9)	(28.8)	(26.6)	(55.4)	0.0	(50.6)	(50.6)
Gross profit	**46.7**	**10.3**	**57.0**	**25.4**	**24.5**	**49.9**	**0.1**	29.7	29.8
Operating expenses	(6.5)	(8.1)	(14.5)	(7.7)	(22.0)	(29.7)	N/A	N/A	(31.8)
Net other income	0.1	(2.6)	(2.6)	5.1	(0.2)	4.9	N/A	N/A	0.2
Operating profit	**40.3**	**(0.4)**	**39.9**	**22.9**	**2.2**	**25.1**	N/A	N/A	(1.8)
Net finance income	4.6	1.9	6.6	20.2	(3.6)	16.6	N/A	N/A	(2.1)
Share in net profit / (loss) of equity investments	(2.8)	0.0	(2.8)	5.4	0.0	5.4	N/A	N/A	4.3
Underlying PBT	**42.1**	**1.6**	**43.7**	**48.4**	**(1.4)**	**47.0**	**(0.6)**	1.0	0.4

Source: Company data, Edison Investment Research. Note: Subs = subsidiaries. All = consolidated P&L.

… But 2013 is set to be even better, despite lower finance income

ISGSY recorded a small loss in H113 of TRY0.6m (H112: +TRY29.4m) as no investments were realised during the period. Despite this, we expect 2013e full-year profits will be even stronger than 2012 due to the completion of the sale of Aras Kargo to Austria Post for c TRY100m (US$51.9m) in

July 2013. Aras Kargo is the market-leading courier company in Turkey with over six million customers across the country. This sale generated TRY82.5m in net profits and a US$-based IRR of 165% based on an initial investment of TRY17.5m (US$9.8m) in November 2011. This represents ISGSY's most profitable realisation to date and surpasses the total record revenues earned in all of 2011. If we deduct the 2012 operating expenses attributable to private equity (TRY7.7m) and assume no other realisations, this generates an operating profit of TRY74.8m (FY12: TRY23m). In line with its distribution policy, we believe c 30% of this will be distributed over coming years, enabling it to maintain one of the highest dividend yields (trailing 12-month 9.0%) on the Istanbul Stock Exchange (average: 2%), even if no further investments are realised.

Returns from short-term investments likely to fall

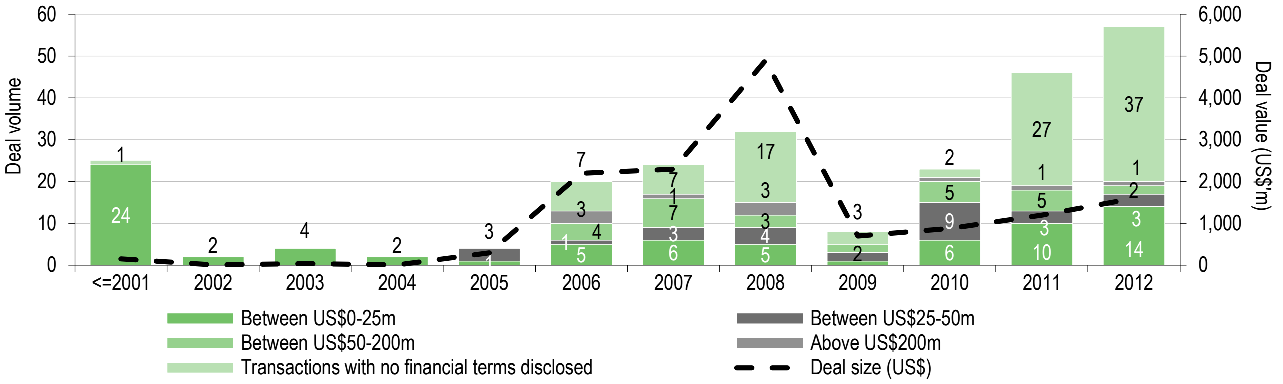
ISGSY's cash reserves have remained high as a stream of successful realisations has offset new investments. ISGSY currently has US$50.4m in short-term investments (June 2013) excluding the US$42.3m profit from the sale of Aras Kargo. While ISGSY benefited from investing in government bonds in 2012 when overnight interest rates were between 12.5% and 9.0%, we do not envisage this level of profitability to be sustained in 2013 as interest rates fell to 6.5% in May. They have since been raised to 7.25% in July and then again in August to 7.75%, but remain well down on 2012 levels. ISGSY's investments in treasury bonds are marked-to-market. We estimate the yield to maturity of its existing portfolio could now be around 6-8%, implying c TRY2-3m (US$1-1.5m) of earnings in 2013 from its TRY34.4m (US$17.8m) invested in government bonds. In H113, ISGSY generated net interest income of TRY0.6m.

Opportunity to grow market leadership position

Market leadership position set to improve

Over recent years, ISGSY has been able to solidify its position as a market leader in Turkey. Since 2002, it has participated in 15 of the 247 private equity deals in Turkey and completed 10 of the 46 exits. This market leadership position will likely improve over coming years as the number of market participants diminishes due to a lack of transactions with a majority ownership position greater than US$50m. ISGSY has largely been unaffected by these factors as it is only targeting lower- to mid-cap companies (US$20-30m) and is willing to take minority positions.

Exhibit 6: The Turkish M&A market has rebounded strongly since 2009



Source: Deloitte, E&Y, Matrix, IS Private Equity

As at June 2013, 39% of its portfolio was invested in short-term investments (US$50m). ISGSY currently has the option to invest an additional TRY30m (US$15m) in both Toksoz Spor and the Istanbul Food & Beverage Group. Including the profits from the sale of Aras Kargo (US$42m) and adjusting for these options, we estimate ISGSY has c US$60m in equity available for new investments. This is before any further debt is required and excludes any dividends paid to shareholders or received from investments (US$92m if the options are not exercised). ISGSY is targeting two to three investments with an equity ticket size of US$20-30m over the next two years. This represents a significant step up from its historical average investment size of US$8m at an average rate of 1.5 investments per year.

Turkey remains a growth market, but with risks

Turkey remains heavily dependent on capital inflows, which are largely driven by foreign investors' confidence. These flows have recently been affected by talk of a possible reduction in quantitative easing measures in the US, slowing economic growth in Turkey and a resurgence in domestic political risks. Turkey has benefited significantly from global quantitative easing measures as investors have used it as a high beta play sensitive to global risk appetite. The Central Bank of Turkey (CBT) has been able to curb Turkey's rapid economic growth to more sustainable levels by raising interest rates and introducing curbs on lending. Turkey's GDP growth slowed to 2.2% in 2012 (2011: 8.8%) and is expected to grow at 3.6% in 2013 (World Bank). However, Turkey remains vulnerable to a tapering in these quantitative easing measures, as it has used this cheap external financing to help fund its growth agenda. Finally, the recent protests in Istanbul have exposed the political risks still present. With the next elections scheduled for 2014/15, political risk is set to remain at the forefront of many investors' minds.

Lack of obvious competitors

The sector in which ISGSY operates is relatively free from competition. ISGSY differentiates itself from its peers by the following factors:

- ISGSY focuses on lower- to mid-cap growth companies, generally taking equity positions between US$5-15m. As the fund size has grown after profitable exits, ISGSY now targets equity positions between US$20-30m. This creates a clear competitive advantage as most other private equity firms are mid-/large-cap funds that have a minimum investment size of US$30m. Due to this focus on lower- to mid-cap companies, ISGSY has rarely been in a competitive auction for an investment target, and one of its exit routes is to one of the larger/later-stage private equity funds.
- ISGSY's local presence and broader group relations give it access to smaller, often family-owned businesses seeking additional finance to fund growth, manage succession issues and improve efficiency. The Is Bank brand name is also very well respected and has a successful long-term track record, which gives many investee companies a feeling of safety.
- 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 four of its 15 investments), with similar levels of downside protection as if it held a majority (see risk management section).
- ISGSY has 12 investment professionals with experience in project finance, consulting, strategic planning, research, corporate finance and the Turkish industry.

Favourable domestic tax regime

The Turkish Capital Markets Board (CMB) grants private equity funds, known as Private Equity Investment Trusts (PEITs), preferential tax treatment to encourage investments. PEITs do not pay corporate tax on income or capital gains. However, they must invest in Turkish companies and at least 50% of portfolio value must be invested (ISGSY June 2013: 61%). For those companies with less than half of their portfolio value invested, there is a recovery period of one year starting from the year end in which the investment amount fell below 50% of the portfolio value. In addition, PEITs must exit their investment within 10 years; otherwise they might be treated as secondary market instruments. This is intended to support SMEs in Turkey and recycle funds within the sector. Although ISGSY first invested in Nevotek in 2003, it still meets these rules as ISGSY has made further investments in the company, the most recent of which was in 2006. Also, a PEIT cannot operate a separate fund management company, which ensures investors do not incur additional management fees. As ISGSY meets all of these criteria it does not pay any corporation tax on income or capital gains. This creates a significant advantage for ISGSY over its international peers and should come through by way of higher realised returns for shareholders. As of June 2013 there are only six listed companies operating the PEIT model in Turkey.

Financing for smaller companies in Turkey remains elusive

Turkey benefits from a strong entrepreneurial culture with lower- to mid-cap family-owned companies forming the backbone of the Turkish private sector. However, many of these companies either do not generate enough cash to fund their expansion plans or struggle to find cost-effective external financing, thus creating an opportunity for ISGSY to add value. Like their European peers, Turkish companies have four traditional sources of capital to fund growth:

- **Loans**: Typically these are less than one-year long and are used to fund working capital needs. In Turkish lira, they cost anything from 10-15% depending on the type of company and the collateral offered.
- **Capital markets**: Most small- and medium-sized companies are simply not ready to be listed, with limited financial management expertise and poor management reporting systems. The number of equity IPOs completed in the market during the 2012 remained largely unchanged at 26 (2011: 27), but only seven have been completed so far in 2013. There are currently 387 listed companies in the Turkish equity market.
- **Corporate bonds**: 2012 saw a continued rise in bond IPOs (2012: 121 vs 2011: 41), driven by two new pieces of regulation. In October 2010, the Banking Regulation and Supervision Agency allowed banks to issue bonds on ISE, while the second increased the reserve requirement imposed by the Central Bank of the Republic of Turkey (CBRT) on short-term deposits. This has encouraged banks to take advantage of record low interest rates and to issue bond IPOs, as opposed to borrowing from international markets. During the first six months of 2013, there were 131 bond IPOs with an average nominal amount raised of TRY192m. But of these, only five were less than TRY20m, which is the range ISGSY traditionally invests in.
- **Mezzanine finance**: Although a possibility, mezzanine finance is generally far too costly for most small companies in Turkey.

Strong management team

ISGSY has 12 investment professionals with experience in project finance, consulting, strategic planning, research, corporate finance and the Turkish industry. All have been at ISGSY for several years and management believes it has one of the most experienced PE teams in Turkey. The CEO, Murat Özgen, has been with ISGSY for over 11 years. Before joining ISGSY, Murat Özgen spent nine years mainly in the finance and banking industries at local and global institutions in Turkey and abroad. He is an investment committee member of ISGSY. In addition to his transactional experience, Murat Özgen has significant board-level experience with ISGSY's portfolio companies.

No change to investment strategy

Investment philosophy and strategy

ISGSY is a generalist lower- to mid-market investor in the Turkish PE market with a focus on growth equity transactions, buy-outs and balance sheet restructurings. It aims to invest in sectors that are non-cyclical and where growth is driven by domestic consumer demand. It also favours sectors in which Turkey has a competitive advantage, such as those that benefit from Turkey's geographic location, that have low cost but highly skilled labour, and that have limited sensitivity to regulatory pressures. Within these sectors, ISGSY focuses on those companies:

- with an aggressive but realistic business plan for high growth – incorporating organic, inorganic, domestic and international growth components.
- that are easily understandable, with anticipated and controllable key performance indicators.
- with strong operational profitability and high cash generation.
- that are operationally sound and have a sustainable competitive edge.
- with differentiating factors such as a market leading position, which is protected by high barriers to entry, a proprietary concept or products with competitive advantages.
- with a strong, experienced and dedicated management team.
- with clear exit opportunities identified at the pre-investment stage.

ISGSY screens approximately 150-200 opportunities a year and has a general investment horizon of between three and five years (average for 10 completed exits: 3.8 years). It aims to achieve an average IRR target of 20-25%. ISGSY maintains tight management controls to mitigate external risks and to incentivise management. ISGSY requires a representative on the board with extensive veto privileges and the right to change top management. ISGSY includes incentives for the management of investee companies if targets are matched or beaten but also employ clawback or earn-out mechanisms to safeguard against overpaying for an underperforming asset.

The key areas where ISGSY adds value are through:

- recruiting management talent.
- implementing new management IT systems, which leads to timely, accurate reporting.
- financial restructuring through adjusting gearing levels and maturities.
- improving corporate governance and enhancing overall transparency through active engagement with management and board membership.
- implementing new strategies to add value such as industry consolidation, expansion into new markets, or strategies that incorporate natural foreign exchange risk hedging mechanisms.
- improving resource utilisation by optimising organisational structures and implementing and monitoring management KPIs.

The current investment portfolio

ISGSY's current portfolio consists of five core investments with a total non-inflation adjusted investment value of TRY74m, with an additional TRY30m committed to both Toksoz Spor and the Istanbul Food & Beverage Group (total investment amount: TRY134m).

Exhibit 7: Current portfolio is relatively well balanced

Company name	Business description	Investment rationale	Investment date	Investment amount	Shareholding	Website
Nevotek*	IP convergence company	Capitalise on growth in the IP telephony market, through development of technology approved and supported by Cisco, LG and Avaya.	Between 2003-06	US$2.9m	81.2%	www.nevotek.com
Ortopro	Manufacturer and distributor of orthopaedic implants	Use Turkey as a low-cost, high-skill manufacturer for Europe. Number two in the market with manufacturing facility.	2007	US$6.0m	32.5%	www.ortopro.com.tr
Turkmed	Provider of renal care and dialysis services	One of the largest players in Turkey. High projected liquidity. The Turkish dialysis sector was the world's ninth largest in 2007.	2007	US$2.5m	25.8%	www.turkmeddiyaliz.com
Toksoz Spor	Sports retailer	Benefit from Turkey's changing demographic structure.	2012	US$13.3m	58.5%	www.sportive.com.tr
Istanbul Food & Beverage Group	Restaurant operator	Parent company of Mikla and Numnum restaurants. Accelerate expansion programme throughout Turkey.	2012	US$15.2m	61.7%	www.iyig.com.tr

Source: Company data. Note: *Nevotek: 2012 dividend (US$575k) and partial exit (3%) in June 2010 for US$250k (42% IRR).

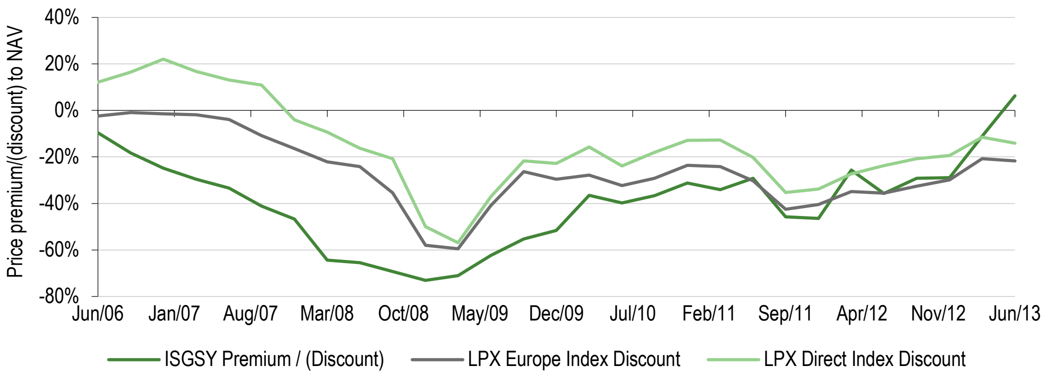
Premium reflects profitable realisations

Over the past five years to July 2013, ISGSY has generated a total return of 506% vs the Istanbul Stock Exchange (ISE 100 Index), which generated a total return of 94%, and the LPX Direct TR Index, which generated a total return of 64%. Much of this performance has been generated in the past six months as investors have reacted positively to the announcement that ISGSY was in discussions to sell Aras Kargo and the payment of a TRY7.4m special dividend in January, followed by another in May (TRY10.1m).

Peer group comparison

As one of only a few listed private equity funds in Turkey, ISGSY lacks a clear comparator peer group. Consequently, we use the LPX Europe Index, which covers all liquid private equity companies listed in Europe, and the LPX Direct Index, which covers all liquid private equity that invests directly in companies across the globe as market proxies. In contrast to most other markets, the CMB requires that all investments in unquoted companies must be valued using the "at cost calculation method", which essentially values investments at an inflation-adjusted value and they are not marked-to-market (see the financials section on page 10 for further details).

Exhibit 8: ISGSY trading at a notable premium



Source: LPX, Bloomberg, company data

ISGSY's shares trade at a 5% premium to its NAV, which is inflation adjusted, but the investment values are not marked-to-market (December 2012: 31% discount). However, adjusting for the recent sale of Aras Kargo (July 2013), ISGSY trades at a 27% discount to its adjusted NAV (TRY4.08). This is wider than the LPX Direct Index, which trades at a 14% discount to NAV, but is in line with the LPX Europe Index (22% discount). Since inception, ISGSY has recorded an average 138% increase in the value of an asset when it is realised, indicating the current inflation adjusted NAV is notably below what it would be if it was marked-to-market.

Sensitivities

Given the nature of the investment and the market in which ISGSY operates, we would highlight the following sensitivities that could affect the investment case.

- ISGSY primarily invests in unquoted companies, which creates a lack of visibility in terms of future financial projections. However, this presents an opportunity for ISGSY to identify high-potential, undervalued businesses.
- Investee companies may not succeed and impairments could be incurred. CMB legislation states if a PEIT has not exited an investee company within 10 years, the stake is written down to zero. However, all of the investments realised so far have been profitable. The CMB is

working on new regulation, which may lead to some changes in CMB's previous statement. The new regulation is expected to be announced by the end of the year.

- ISGSY consists of a 12-member team of investment professionals, and hence the retention of personnel will have a bearing on its performance.

Uncertain macroeconomic trends

We believe the risks associated with investing in Turkey have been rising due to above-target inflation (2012: 6.2% vs target 5%) slowing economic growth (2012: 2.2% vs 2011: 8.3%) and a resurgence in domestic political risks. This has been exasperated recently by fears US quantitative easing measures will be reduced. Eventually this will increase the cost of attracting foreign capital, which has been used to fund Turkey's large current account deficit (c US$55bn a year). As a result, Turkey's equity index has fallen 25% over the last three months (MSCI EM Index -10%). Despite overnight interest rates raising from 6.5% to 7.25% in May and then again in August to 7.75%, the currency also remains under pressure (TRY/US$ three months: -8%), which is a concern given the Turkish public and private sector have around US$110bn in external debt due in the next 12 months.

Financials

Unlike European private equity funds operating under IFRS, ISGSY is prevented by the CMB from marking-to-market, or fair value accounting, its investment portfolio. Because of the historically high level of inflation in Turkey, it does inflation-adjust carrying book values, but we believe this does not reflect the full value of the portfolio as evidenced by regular exits above carrying value. This is in contrast to European private equity, where the European Venture Capital Association requires that valuations are marked-to-market so that they represent a fair value of an investment's current worth. Therefore, if the value of an asset increases over time it would be recorded at a higher valuation in Europe than it would in Turkey. This means Turkish private equity companies will typically have higher total expense ratios and their shares will trade at a narrower discount to NAV, as their asset base will be lower than their European peers.

Viewing ISGSY as an investor is further complicated by its need to consolidate a number of investments in which it holds a majority (Nevotek, Toksoz Spor and Numnum), or in one case (Ortopro), where it holds a minority position but exercises control. In 2011, only Nevotek was consolidated. Ortopro was consolidated from the beginning of 2012 and the investments Toksoz Spor and Numnum (late in 2012) will generate additional changes in the consolidated P&L through 2013. The consolidation of operating subsidiaries introduces a number of revenue and cost items, which would not normally be seen on the accounts of a private equity fund. We exclude these figures in our analysis so that we can identify the underlying performance of the fund. The number of shares outstanding increased in June to 66.654m following the 15% bonus issue in June 2013.

Total expenses are falling due to growing asset base

We generally measure expense levels in relation to the size of the average net asset base. Because assets are not marked-to-market, a direct comparison with peers (such as Deutsche Beteiligungs [2.9%] in Germany and Dunedin Private Equity [1.8%] in the UK) is not possible. Nevertheless, it is still a useful measure to analyse ISGSY's expenses over time. Its operating expenses increased 19% in 2012 representing a total expense ratio (total operating expenses/average shareholders' equity excluding minority interests) of 3.8%, which is down from 4.2% in 2011. This falls to 2.7% if we increase shareholders' equity by TRY82.5m to reflect the profits generated from the sale of Aras Kargo in July 2013.

Exhibit 9: Total expense ratio			
TRYm	**2010**	**2011**	**2012**
Shareholders' equity excluding minority interests	137.2	170.4	228.6
Average shareholders' equity excluding minority interests	132.7	153.8	199.5
Operating expenses attributable to private equity	(4.4)	(6.5)	(7.7)
Total expense ratio	**3.3%**	**4.2%**	**3.8%**

Source: Company data, Edison Investment Research

Dividend payments to rise gradually

ISGSY has paid regular but variable dividends over the past six years from underlying recurring profits supplemented by exit gains. Having paid a TRY7.4m special cash dividend in January 2013 from the profits of the Havas exit (TRY18.4m), ISGSY paid an additional TRY10.1m cash dividend on 8 May 2013, representing an aggregate 9% dividend yield (trailing 12 months). ISGSY's dividend policy is to distribute c 30% of the distributable profits as either bonus shares and/or cash. As the Aras Kargo realisation was so profitable, ISGSY may pay additional dividends as it did after the exits of Havas and Frik Ilac.

Exhibit 10: Consolidated Income statement

Year end 31 December TRYm	2008	2009	2010	2011	2012
	IFRS	**IFRS**	**IFRS**	**IFRS**	**IFRS**
Revenue	26.4	8.2	17.1	76.0	105.2
o/w Private Equity	18.9	0.3	6.2	62.0	54.2
Cost of Sales	(8.3)	(1.9)	(5.3)	(18.9)	(55.4)
o/w Private Equity	(11.2)	0.0	(1.7)	(15.2)	(28.8)
Gross Profit	18.0	6.4	11.8	57.0	49.9
Operating expenses	(7.7)	(9.4)	(11.3)	(17.1)	(24.8)
o/w Private Equity	(3.6)	(3.7)	(4.8)	(6.4)	(2.5)
Operating Profit (Private Equity)	4.2	(3.4)	(0.3)	40.3	22.9
Operating Profit	10.3	(3.0)	0.5	39.9	25.1
Share in net profit / (loss) of equity investments	(1.4)	(4.8)	3.3	(2.8)	5.4
Net Interest	11.2	16.0	8.1	6.6	16.6
Profit Before Tax (Private Equity)	14.8	13.1	11.0	42.1	48.4
Profit Before Tax (FRS 3)	20.1	8.2	11.8	43.7	47.0
Tax (Private Equity)	0.0	0.0	0.0	(1.3)	0.0
Total tax	0.0	0.0	0.0	(0.1)	0.1
Profit After Tax (Private Equity)	14.8	13.1	11.0	40.8	48.4
Profit (loss) from discontinued operations	0.0	0.0	0.0	(1.3)	4.2
Profit After Tax (FRS 3)	20.1	8.2	11.8	42.2	51.3
Average Number of Shares Outstanding (000s)	66.7	66.7	66.7	66.7	66.7
EPS - normalised (TRY)	0.22	0.20	0.16	0.61	0.73
EPS - FRS 3 (TRY)	0.30	0.12	0.18	0.63	0.75
Dividend per share (TRY)	0.06	0.05	0.05	0.11	0.19
Cash exit multiple on realisations	1.7	--	3.7	4.1	1.9
Total expense ratio - non consolidated	0.0%	0.0%	(3.3%)	(4.2%)	(3.8%)
Operating Margin (Private Equity) (%)	22.0	--	(4.5)	65.1	42.2

Source: Company data

Exhibit 12: Consolidated Balance sheet

TRYm	2008	2009	2010	2011	2012
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
Fixed Assets	42.1	36.7	54.2	51.4	123.3
Intangible Assets	1.0	0.5	0.1	0.0	29.4
Tangible Assets	0.2	0.1	0.1	0.2	11.2
Investments	40.9	36.0	53.9	51.1	82.0
Other	0.0	0.0	0.0	0.0	0.7
Current Assets	84.6	94.7	86.4	125.0	249.2
Stocks	0.0	0.1	0.2	0.3	41.2
Cash	12.3	9.5	14.4	40.2	40.8
Financial investments	64.5	77.3	63.1	75.6	101.2
Debtors	7.8	7.9	8.7	9.0	66.0
Current Liabilities	(2.3)	(2.3)	(2.0)	(4.1)	(91.2)
Creditors	(0.9)	(0.5)	(0.6)	(1.1)	(33.6)
Other	(1.3)	(1.8)	(1.4)	(3.1)	(57.6)
Long Term Liabilities	(0.3)	(0.1)	(0.4)	(0.7)	(30.5)
Long term borrowings	(0.2)	(0.0)	(0.2)	(0.1)	(20.8)
Trade payables	0.0	0.0	(0.1)	(0.1)	(2.8)
Other	(0.0)	(0.0)	(0.1)	(0.5)	(6.9)
Shareholders' Equity	124.1	129.0	138.2	171.5	250.9
Private Equity un-consolidated					
Investments (Private Equity)	89.4	62.6	79.6	134.0	150.6
o/w Provision for options	30.2	0.0	0.0	66.1	60.0
Cash & other short-term invst. (Private Equity)	76.4	86.3	77.2	113.9	118.3
Less: debt, provisions for options in excess of liquid assets, receivables and other assets	29.0	(0.9)	(0.7)	66.2	60.2
Net asset value (Private Equity)	136.7	149.9	157.5	181.7	208.7
NAV per share (Private Equity)	2.05	2.25	2.36	2.73	3.13

Source: Company data

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