LANSDOWNE

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Lansdowne Consulting Bulletin

January 2014

This bulletin is designed to provide our business partners and friends with valuable market and business insights.

The current edition of our bulletin contains three articles:

1) **"Next generation" commercial due diligence – refocus commercial due diligence towards higher investor requirement**
2) **Revival of MVNOs - Changing business models and new growth opportunities for MVNOs until 2018**
3) **Turkey: The right time to invest**

In addition we provide you with selected news and highlights from our Lansdowne network.

1) "Next generation" commercial due diligence – refocus commercial due diligence towards higher investor requirement

Investment decisions in the private equity industry are becoming increasingly challenging with increased risk exposure. Commercial due diligences are hence facing higher expectations from investors. With a traditional due diligence approach investment decisions are hardly substantiated. Consequently, Lansdowne follows a "new generation" commercial due diligence approach, which differs significantly by providing solid and thorough investment advice.

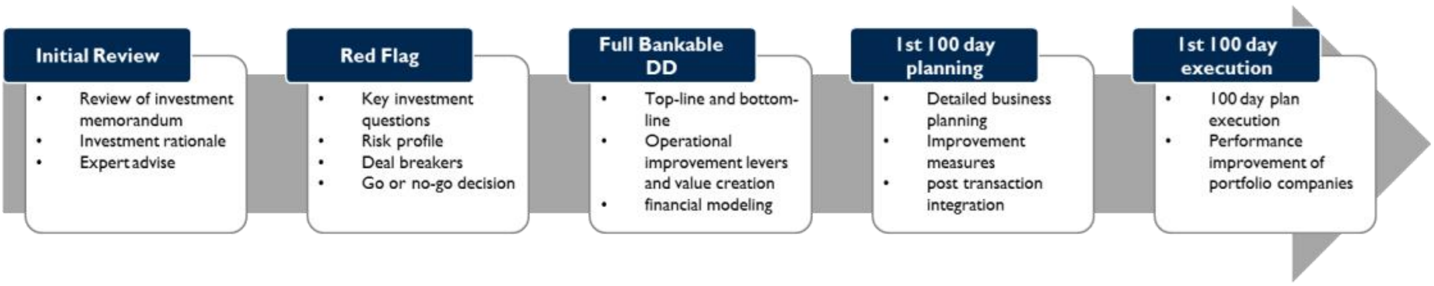
The financial crisis painfully demonstrated to investors and lenders how important it is for high quality due diligences to be carried out by experienced teams for proper assessments and, of course, risk mitigation

Many loans and/or equity would most likely not have been provided or paid for target investments, or at least not on the same terms, if accurate and objective assessments of market and competitive fundamentals, supported by sound modeling of sensitivities and stress testing scenarios, had been carried out.

Investment decisions in the private equity industry are becoming increasingly challenging with increased risk exposure. On the one hand, this is due to a changed market environment with the "globalizing" nature of today's business, transforming emerging market economics and higher exposure to financial and economic crises. On the other hand, we observe more fierce competition for investment targets between investors (both private equity and strategic investors). In other words, a growing number of investors and banks compete for a lower number of targets. As we have observed first hand, this means that initial bids are stretched to the limit in terms of return potential, while the bandwidth of upside and downside risks is increasing. Commercial due diligences are hence facing much higher expectations from investors to support increasingly complex investment decisions.

Traditional commercial due diligence approaches often do not provide a solid and profound basis for negotiations and investment decisions since they lack value adding potentials and rigorous sensitivity analysis. The main reasons for these deficien-

Lansdowne's „Next Generation" Due Diligence Offering



cies are:

- Main focus on top-line and underlying market dynamics
- "Due Diligence factory" type of consulting
- Copy & paste approach
- Overreliance on desktop research and secondary sources
- Overweighting of junior consultants on our team

Consequently, Lansdowne follows a "new generation" commercial due diligence approach that significantly differs from traditional practice. The main characteristics are:

- Thorough understanding of business model and mechanics related to competition and market dynamics
- Integrated view that consider both top and bottom line
- Identification of operational improvement levers and value creation
- In-depth risk analysis and stress testing
- Financial modeling with sensitivity cases in close cooperation with financial due diligence
- Deep expertise in implementing performance improvements

Beside our "next generation" due diligence approach we believe that another key success factor in providing due diligence services lies in an appropriate team and resource set up. Lansdowne's resourcing and leadership model follows our entrepreneurial driven philosophy:

- Tailored engagements led by Partners who are actively involved in all phases from interviews to report development
- Approach based on sound business acumen
- Experienced, multinational consultants
- Senior industry experts and thought leaders
- Delivery know-how
- Provide real insights by leveraging wide network of subject matter experts, industry specialists and executives
- Global coverage

Our business model is based on sustainable client relations/ partnerships and high responsiveness to our clients' day to day needs throughout the entire transaction process. Hence we provide commercial due diligence services on the whole investment side, including: initial review of info memorandum, red flag due diligence, full commercial due diligence with bankable report, 1st 100 day planning and execution as well as performance improvement up to turnaround initiatives of portfolio companies.

Lansdowne has successfully applied its proven due diligence approach across a wide range of industries, including automotive, business services, process industries, high tech and telecommunication, pharma and healthcare, engineering, consumer goods, distribution and retail with dedicated industry teams.

Markus Fraenkel

Partner - Lansdowne Consulting GmbH

Tobias Hofmann

Managing Partner - Lansdowne Consulting GmbH

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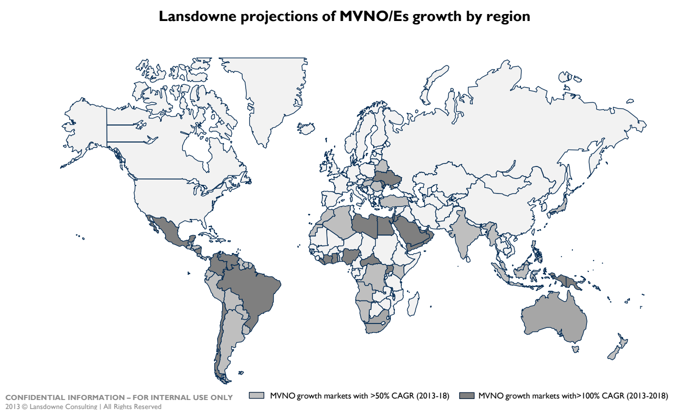
2) Revival of MVNOs - Changing business models and new growth opportunities for MVNOs until 2018

This article focuses on the revitalization of the MVNO business segment around the globe (2014-18). In the near future, the MVNO market and its entire ecosystem will present lucrative opportunities for all players involved, mainly MNOs, MVNOs, MVNAs, MVNEs, FMC and Quad Play operators, retailers and VAS application and content providers.

Rapid growth in emerging markets

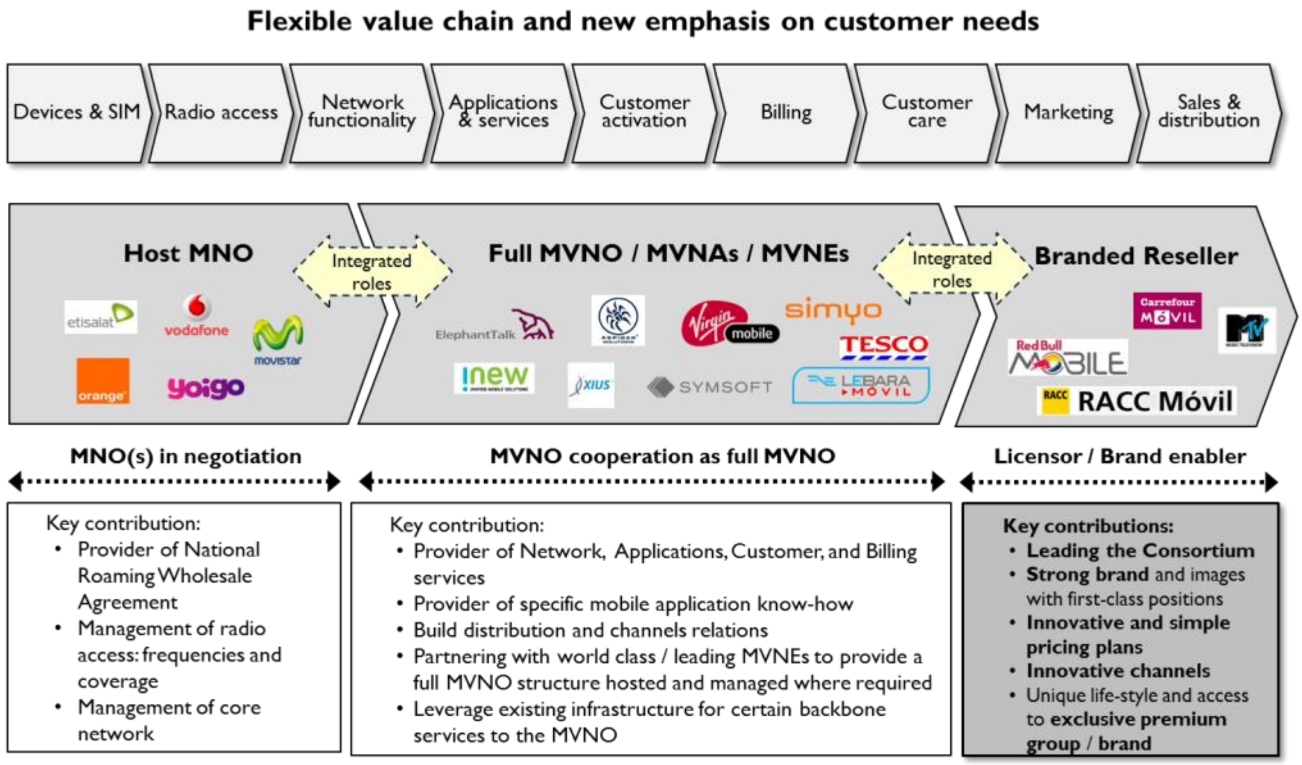
Among the more than 800 existing MVNOs world-wide, there are two main developments underway. On one hand, we ob-



Graph 1: MNVO future lead markets and estimated growth development regions 2013-2018

serve an ongoing consolidation in the market driven mainly through acquisitions by host MNOs or the disappearance of unviable MVNOs due to their rather simple and undifferentiated value propositions focused on low cost consumer needs via prepaid services. On the other hand, we will see the emergence of new kinds of MVNOs based on new technologies and business models.

World-wide we foresee significant growth and birth of new MVNOs, particularly in the MENA region and soon to come in Africa. We expect MVNO growth to be slow in Asia, but foresee strong growth in South America. In terms of the emerging large populated non-BRIC emerging markets, today there is a general lack of competition with often only 1-2 operators and therefore there remains significant work ahead to liberalize the markets in order to enable the targeting of underserved segments via MVNOs. In the beginning of 2014, we expect the launch of 3 MVNOS in Saudi Arabia, which as the regional lead market will have significant impact for the neighbouring countries. Africa will follow.



Graph2: Flexible value chain and leverage the customer needs

In 2014-15 we expect market liberalization in Latin America, mainly driven by Brazil and Mexico as the lead markets for the region. Unlike the MVNO growth in Europe during the last decade, growth in the first phase will not be driven exclusively by so called 'low cost' providers. Value propositions based on ethnic groups, immigrant populations and high value added applications will contribute to more sustainable growth than even Europe has shown.

Changing business models for MNOs

As emerging countries open up to the MVNO model to foster competition, this will attract the attention of international investors behind global MVNOs such as Virgin, América Móvil, Liberty Global, etc. In addition, leading MNOs are also seeking new alternatives to reach foreign, uncovered markets. The strategy followed in the last decade of acquiring local MNOs has shown to be too expensive and ultimately not particularly successful.

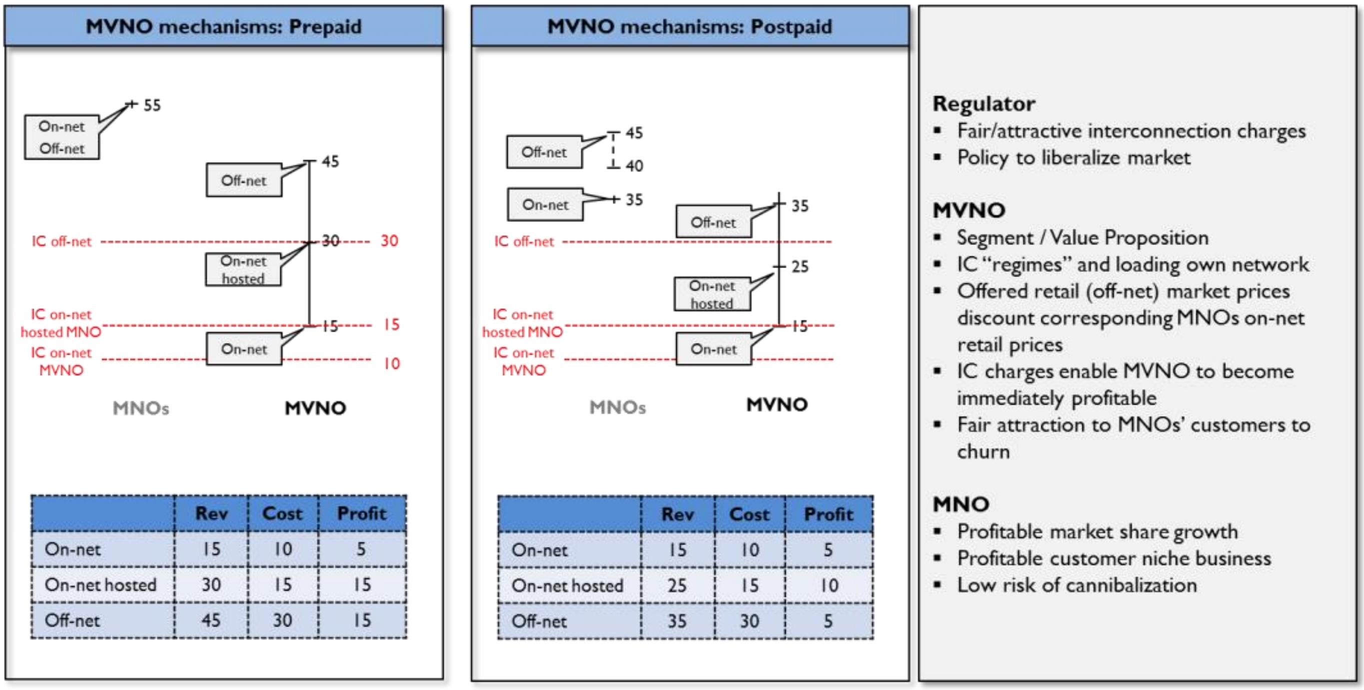
Prominent examples of such internationalization strategies are Orange's (France Telecom) Horizon that seeks to increase its footprint in emerging countries. Likewise T-Mobile's (Deutsche Telekom) or Tele2's market entry strategy is based on developing multiple branded license models and lean innovative online reseller models. Eventually, we will see that MNOs will use the MVNO business model to internationalize their business in the 2014-2018 period.

The upcoming consolidation of MNOs in Europe will also increase the pressure to develop innovative MVNO models for the top 10 telecom operators. It is foreseen that MNOs will treat and use the MVNO models to offset their dramatically increasing network infrastructure costs and to ensure profitable market share growth.

The changing business models of MNOs and MVNOs will lead to more integrated and flexible value chains. The maturity and acceptance of MVNE/MVNAs will further lower the minimum number of subscribers for MVNOs. As a result, the MVNO value chain is becoming more integrated.

This trend creates another advantage for the mobile market. With the increasing attraction of pure licensors, the so-called ‘brand enablers’ will appear in greater numbers and become appealing partners for MNOs. As such, leading brands such as Red Bull, MTV and Virgin will further gain in importance for all mobile operators that wish to follow their customers’ changing needs.

MVNO principles and (IC) interconnection “regimes” (example)



Graph 3: MVNO key principles

While OTTs are viewed as a potential threat for MNOs, the opposite is true for MVNOs where they are believed to offer new opportunities for MVNOs to become more relevant partners for innovative and technologically affine value propositions. In Europe we observe a number of start-up companies that develop such application as or for MVNOs (e.g. brightroom innovation, mobile Vision). MNOs will sign transnational wholesale agreement with these diversified MVNOs to address their specific growth needs.

Readiness of MVNOs and MVNEs

Over the last decade MVNOs have learned from their failures. In ‘MVNO v1.0’ their focus was mostly on the rapid coverage of untapped consumer segments and positioning themselves mainly with “low frill” concepts. The negotiated wholesale agreements these players made were often not well understood and resulted in the required pay offs coming too late, leading many MVNOs to failure.

Today, however, most of the MVNO executives and investors understand the MVNO key principles and critical success factors, which in the past were the exclusive domain of pricing and wholesale experts, and certain mobile executives. The current MVNO business and decisions makers understand that it operates more as a retail business rather than a traditional telco enterprise.

We have identified the following MVNO principles and "IC regimes" as critical for market success:

- attractive on-net retail prices, which will not burden the profitability of the MVNO over more than a few months
- attractive MVNO off-net rates comparable to MNO off-net
- strong on-net behaviour with app. 50% on-net usage after 2 years (loading own network)
- viral marketing and innovative sales approaches

These insights mean that the probability of survival of an MVNO is much higher today than in the past. Likewise, the more sophisticated nature of the market means that weak business plans will be rejected by investors and MNOs. As a result, the best MVNO models will establish and further strengthen their market acceptance.

We expect today's leading brand providers (e.g. Virgin, Red Bull and MTV) but also retail chains, such as Tesco, to continue their expansion plans since they receive a positive 'kick back' from their mobile businesses. Up until recently they have treated the mobile business as a pure opportunity business. With the revival of MNVOs, however, they should expect to not only strengthen their core business, but also generate attractive benefits from their mobile businesses.

Step by step, MVNOs will play an ever greater role as value added partners that will strengthen the host MNO's market position. For example, they could reach underserved premium SME business segments with many more business applications (M2M, multi-IMSI, Wifi offload). In consumer segments, MVNOs could effectively reach households and youth segments with exclusive applications, content and community spirit, such as pursued today by RBM and MTV. As a result, social communities (sport events, cultural or social groups) are expected to expand further.

Dr. Lothar Hessel

Associate Partner - Lansdowne Consulting GmbH

Jeff Fenyo

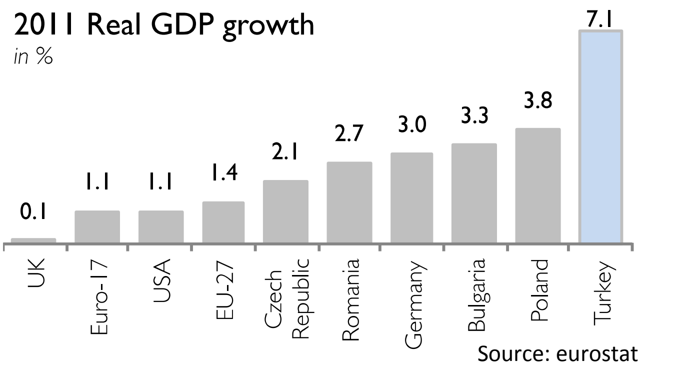
Partner - Lansdowne Consulting GmbH

3) Turkey: The right time to invest

Since 2002, the Turkish economy has been growing steadily. Despite the global downturn that started in 2008 Turkey remained economically sound largely as a result of lessons learnt from the Turkish banking crises in 2001.

This period saw it become the 16th largest economy in the world (PPP adjusted), whilst recording a 9.2% growth in 2010 and 7.1% in 2011 according to Eurostat. The country's success is put into perspective when compared to the growth rates of 1.4% and 1.1% for EU-27 and Euro area, respectively, in 2011. Furthermore, the recent forecast by the Ministry of Finance predicts an average growth rate of 5.2% for the next five years.

The Government was successful in slowing down the economy without any adverse effects. The hyperinflationary era for Turkey is long gone. Inflation since 2005 has been in the single digits and so far firmly under control.



Source: eurostat

The CPI inflation in Turkey during the first nine-months of 2012 was at 9.66%, this figure is 9.19% for the last twelve months.

The growth in terms of GDP / capita has been equally significant, propelling the average income from US$ 3,400 in 2002 to US$ 10,444 in 2011, creating a large population with higher disposable income.

This is already attracting the attention of major retail operators and consumer goods manufacturers.

A well-managed economy

Despite many of its neighbours and other Western European countries suffering from excessive borrowing and having to resort to methods such as quantitative easing to shore up demand, Turkey has been rather conservative in its management of its public spending. This is reflected in the fact that Turkey has not had any trouble borrowing in international capital markets and boasts one of the more stable balance sheets in its peer group according to the Undersecretariat of the Treasury and Eurostat.

Increasing investor confidence

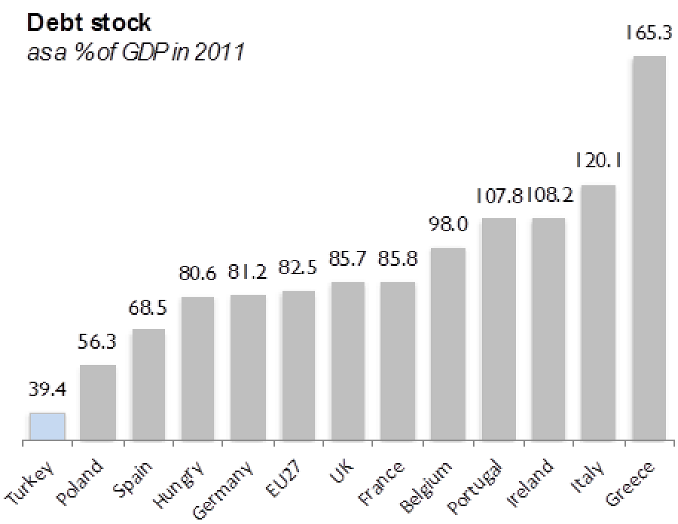
The global financial crises had a negative impact on foreign direct investment, which decreased sharply in 2008 and 2009.

However, despite continuing problems in the Eurozone, investment is returning to Turkey and FDI reached US$ 16 billion by the end of 2011 according to the International Investors Association of Turkey. This represented a 74% increase over 2010. FDI during the first six months of 2012 was already up 20% over the same period last year exceeding US$ 8bn.

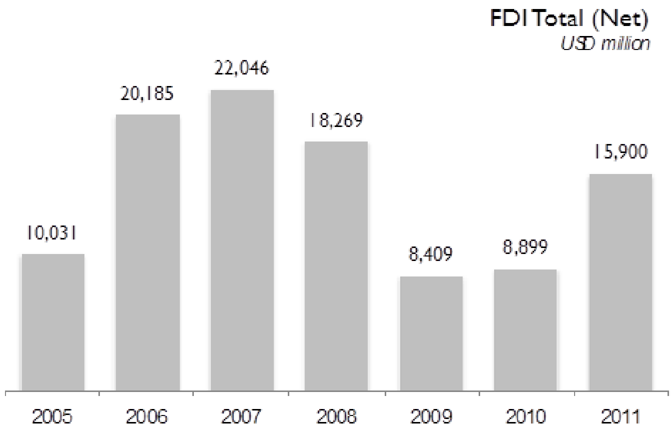
The government's ability to maintain growth, keep inflation under control, improve business conditions for foreign companies and maintain the availability of skilled labour have made Turkey the 15th most attractive destination in the world according to UNCTAD World Investment Prospects Survey, 2008 – 2010. The number of companies with international capital grew at a CAGR of 20% since 2001, exceeding 29,000 in 2011 confirming the attractive investment environment.

Growth and internationalization of local players

Rapid economic growth has propelled Turkish companies to new highs. In 2010, Turkey had eleven companies in the Global 2000 list by Forbes.



Many are becoming international players themselves: Eczacıbaşı (a local conglomerate with interests in construction materials, mining, commercial real estate, healthcare and IT) already has 13% market share in Germany after its Villeroy and Boch acquisition in 2005, 10% in Austria, 6% in the UK and 3% in France in ceramic sanitary ware; Efes Beer (Anadolu Holding) has a growing share of the European and Central Asian beverages market; Koç Holding is an international leader in home appliances with Beko. TemSA (a Sabancı Holding company) has been selling its own brand of buses and mini-



buses across Europe and the Middle East; Şişecam has become one of the largest flat glass manufacturers in the world; Turkcell Group is a major player in the regional Telecoms market with interests in Russia, Belarus, Kazakhstan, Georgia, Azerbaijan, Moldova, Germany and North Cyprus.

A hub for the whole region

Geographically, Turkey is in an attractive location. Throughout history, Istanbul has always been a hub for trade sitting on a number of trade routes.

More recently, Istanbul has become a major transport hub for the region. Its success means that its two airports are no longer able to handle additional air traffic and therefore the Turkish Government is planning to build a third airport.

Likewise, Turkish Airlines has become one of the leading airlines in the World. It is now the sixth ranked airline in terms of destinations served.

The area around Turkey, within a three-hour flight, is home to one billion people who generate one third of the World's GDP with US$ 22.6trillion.

An attractive market to enter

Turkish M&A activity in 2010 soared to reach the highest number of deals ever and the second highest deal value after the year 2005. In 2010, total M&A volume was around US$29 billion, two times the deal value and number compared to the previous year.

Devrim Celal
Partner - Lansdowne Consulting GmbH

Jeff Fenyo
Partner - Lansdowne Consulting GmbH

LANSDOWNE NEWS

- Dr. Lothar Hessel has joined Lansdowne to support our Telecommunication and Media practice with his extensive telco consulting and industry background

- As in previous years, Lansdowne supported the Science4Life Venture Cup by assessing biotech start-up business plans

- Lansdowne advised Seafort Strategy Advisors on the acquisition of three portfolio companies

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Lansdowne Consulting advised
SEAFORT ADVISORS
on the acquisition of three portfolio companies
DialogFeld Communication Group
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- Finally, we would like to thank all of our clients and partners for a highly successful 2013 and we look forward to working together in 2014

Lansdowne is a leading international strategy consulting boutique. We provide our clients with tailored teams from our global network consisting of highly experienced consultants and industry executives. We focus on delivering measurable results and implementing sustainable solutions for complex business challenges.

Lansdowne Consulting GmbH
St.-Anna-Platz 2
80538 Munich
Germany

Contact: Sebastian Haaf
Tel: +49 (0) 89 - 37 41 64 72
Fax: +49 (0) 89 - 37 41 64 74
E-Mail: sebastian.haaf@lansdowneconsulting.com