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INTERVIEW – Bulgaria Mezzanine Capital I L.P. Manager Eyes Early 2012 Launch, Up to 15 Investee Cos

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by **Georgi Georgiev**

SOFIA (Bulgaria), November 10 (SeeNews) – Bulgaria Mezzanine Partners is on track for a first closing in early 2012 of a Bulgaria-focused mezzanine investment fund it has been tapped to manage under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative, a senior

official from one of the fund manager's co-owners said.

"We are currently in fund-raising and we expect to have a first closing early next year with a size of at least 30 million euro [\$40.8 million]," Christian Stix, investment manager at Mezzanine Management GmbH, told SeeNews in a phone interview from his office in Vienna.

Bulgaria Mezzanine Partners is a joint venture between Growth Capital Partners AG (GCP) and Rosslyn Capital Partners. GCP is an Austrian-registered entity founded by key executives of the Mezzanine Management Group.

JEREMIE Bulgaria EAD, a special purpose vehicle set up in 2010 on the basis of the framework agreement between the European Investment Fund (EIF) - the European Investment Bank Group's specialist provider of small and medium-sized enterprises (SME) risk finance across Europe - and the Bulgarian government for the implementation of the JEREMIE initiative, will invest in four private equity funds specialised in different stages of the business lifecycle - seed, venture capital, expansion and mezzanine investment.

JEREMIE is a joint initiative launched by the European Commission and the European Investment Bank Group to improve access to finance for SMEs in the EU within the Structural Funds framework for the period 2007-2013.

Following a public call, Bulgaria Mezzanine Partners has been selected to manage the mezzanine fund which will be called Bulgaria Mezzanine Capital I L.P. and will have a target size of 60 million euro providing long-term debt to support SMEs in their expansion. The fund will be advised by an experienced team of local investment professionals based in Sofia.

The EIF will co-sponsor Bulgaria Mezzanine Capital providing 50% of total commitments raised, up to a maximum of 30 million euro. "If we reach our target size of 60 million euro, the EIF will provide 30 million euro and the other 30 million euro will come from private investors," Stix said, adding that Bulgaria Mezzanine Partners will not only manage the fund but also has a commitment to invest alongside the EIF and the private investors.

The official said one of the reasons to get involved in the JEREMIE programme in Bulgaria is the solid footing that Mezzanine Management already has in the country. Through the Accession Mezzanine Capital (AMC) funds it advises, it has already participated in eight mezzanine and minority equity investments in Bulgaria.

"In the past we were not in a position to service the smaller scale segment as we start investing at 7.0-8.0 million euro with our AMC funds. But we have always seen good opportunities in Bulgaria's lower mid-market segment and when the EIF started this programme we thought it was a great idea. The lower mid-market in Bulgaria is underserved with regard to mezzanine funding so there are a lot of good opportunities," Stix said.

Bulgaria's SME sector is very strong - representing over 99% of local enterprises and accounting for around 70% of the total turnover in the private sector, but has been shunned by the commercial banks in the aftermath of the financial crisis, leading to a limited availability of senior financing.

Data released by Eurostat last month highlighted the scale of the problem, showing that the tightening of bank credit has led Bulgaria to post the EU's largest increase in unsuccessful SME loan applications from 3.0% in 2007 to 36% in 2010.

Stix said Bulgaria Mezzanine Capital I L.P. is expected to have between 12 and 15 investee companies towards the end of its investment period. The size of the individual investments will be between 2.0 million and 5.0 million euro.

“Our policy also leaves room for follow-on investments where we, for example, put 3.0 million euro into a particular business. If the business develops according to plan and there is a good outlook to further expand its market share, then we could consider putting to work an additional 2.0 to 3.0 million euro of investment.”

The investment period of the mezzanine fund will run through the end of 2015 but there is an option to extend it by a year if the fund manager deems this necessary.

Stix said the total return on investment that will be targeted will be in the high teens. The cash interest cost to the investee companies is however much lower and is only slightly above what companies pay to senior lenders. However, the equity upside that Bulgaria Mezzanine Capital I L.P. will seek in every transaction will ensure aligned interests with the owners of the investee companies and allow the fund to generate attractive returns to its investors.

The structure of the interest payable by the investee will have a component that is due on a quarterly basis - so called cash interest, and a second component - a payment in kind (PIK interest).

“This means the company does not have to pay the PIK interest quarterly but will pay this additional interest at the investment exit or at the full loan repayment. So the contractual return is in the low teens and the additional return we want to receive on top of this to come up with our targeted return in the high teens is created by an option that will be triggered if the company performs well. This tailor-made structure is another main advantage of mezzanine compared to equity funding as our mezzanine loans will not trigger a change in ownership or loss of control rights for existing shareholders.”

In terms of industries, Bulgaria Mezzanine Capital I L.P. will apply an opportunistic investment approach and will target a broad range of industries, including fast-moving consumer goods (FMCG), contract services, healthcare, manufacturing (excluding heavy industries), financial services and proven information technology while steering clear of property, alcohol, tobacco and firearms, heavily cyclical or commodity-related industries and businesses with a high operating leverage as well as highly regulated and licensed industries.

“Our target companies possess attractive growth opportunities, but lack funding to realise these projects. Bulgaria Mezzanine Capital I L.P. will support these businesses in their expansion,” Stix added.

“The bottomline is that we will not invest in start-up companies but target established businesses with annual sales of over c. 10 million euro and a market-leading position in the respective industry or niche,” Stix said, adding that the introductions from prospective investee companies that the fund manager has received so far paint a diverse picture. “We have seen introductions from the FMCG sector, financial services and specialty retail, among others.”

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