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DIGITAL DNA
Private Equity

Towards Digital Economy: 20 Voices for the 20TH Anniversary of MCI Capital

MCI 20TH ANNIVERSARY

This is just the beginning of our digital history

MCI Team

MCI having operated for 20 means that the best is still ahead of us. Our future is driven by a powerful, widespread, and dynamic trend – the digital transformation of economy. At the onset of our fund's business activity, there were less than 200 million people using the Internet on the planet. The network back then had low traffic capacity and was expensive to use. It was a time when there was a note saying "beta version" on Google's homepage. Back when MCI was created, Amazon started purchasing its first companies in Europe and many considered Jeff Bezos a madman, a profiteer or, at best, an incorrigible optimist. Today, we know that he was actually a visionary who based his business decisions not so much on intuition as on a thorough understanding of and knowledge about the processes underlying the digital world which are sometimes difficult to grasp. Currently, there is no area in business and economy untouched by digitization. The potential, habits, and preferences of 4.3 billion Internet users cannot be ignored.

Europe has become the third world digital power. So our prediction, grounded in our knowledge and experience, is simple: there is no going back and there will be a host of European champions.

Does this network boom mean that several huge companies will reap the lion's share of profits connected with the digitization of economies? Will we – Europe and Poland – be overshadowed by American and Chinese ecosystems of digital innovation? Our answer to this is "no." Over the course of several years, Europe has become a legitimate player on the digital field and the digital transformation on the entire Old Continent has been shifted to a higher gear. Last year, i.e. in 2018, exits connected with IPO for European companies supported by investment funds reached a record-breaking value of USD 107 billion. Of this, Spotify, Adyen, Farfetch, and Elasticsearch alone were appraised as part of the relevant transactions at a total exceeding USD 50 billion. Europe, MCI's natural market, has demonstrated that it can come up with a series of large unicorns, whetting the appetite and stirring the potential for much more. Europe has not yet reached the level at which the USA and China are – where the value of exits in 2018 was USD 136 billion and USD 113 billion respectively – but no one could rightly call Europe Cinderella any more.

Europe has become the third world digital power. So our prediction, grounded in our knowledge and experience, is simple: there is no going back and there will be a host of European champions. This time, they will be 100% digital, filling up the empty space remaining in sectors such as finances and commerce which have gone online in only 10 percent. MCI, which has gone from venture capital to a private equity fund, would like to be at the very centre of this digital melting pot. We will support the best and most dynamic companies in their expansion onto new markets and into new services and business models. The capital, know-how, and courage of MCI are to become a flywheel for more and more leaders operating in the e-commerce, OTA, and fintech sectors. We believe that, operating according to the private equity formula, we have the competence and tools necessary to activate the turbo mode for future champions, also ones under the Polish flag. The recipe for being successful in that field is an intricate puzzle consisting of many pieces.

This is why our website presents to you in-depth knowledge about the digital revolution and gives you an insight into its mechanics, spreading information from its very epicentre. Such information includes stories, observations, advice, predictions, and warnings from founders, managers, entrepreneurs, and leaders closely associated with the environment created by MCI over the course of two decades. Magnus Nilsson (the founder and president of iZettle), Mounir "Moose" Guen (the founder and president of MVision), Luis Amaral (the owner of Eurocash), Ondrej Fryc (the founder of MALL.CZ), Sebastian Muliński i Paweł Fornalski (the co-founders IAI SA) and Franz Hoerhager (CEO of Mezzanine Management) are only some of 20 individuals taking the floor in this book. There is also much to do for their possible rivals and successors as half of mankind still is not connected to the Internet. This is just the beginning of our digital history.

20 voices:

4 musts of fund relations

How to choose the right investor

Sebastian Muliński, Paweł Fornalski

"It was crazy 11 months, during which we decided, within 11 days and 11 years later, what the future of IAI S.A. will be" – this is how Paweł Fornalski summed up the moment when MCI acquired the majority interest in IAI. Today, Fornalski – the President and Co-founder of the company, together with Sebastian Muliński, Vice President and Co-founder of IAI, work hand in hand with the investor to quickly grow the company and increase its value, which currently stands at an PLN 300 million according to a valuation made as part of the 2018 autumn transaction. However, by their own admission, choosing an investor was a test, and they managed to come out on top. They mainly owe this to the fact that, before and during the investment process, they stuck to the course they

had set for themselves and which they distilled into the 4 following pieces of advice.

1. Don't lose sight of your daily business

The matters of investment and securing growth capital had been a topic of discussion at our company for at least several quarters. We were very seriously looking into a GPW (Warsaw Stock Exchange) listing and issuance. Then, on the recommendation of advisors, a new option materialized – to start a sort of bidding process with a selected group of interested investors. After we put the final touches to the teaser and sent it to the world, it turned out that a large group of companies expressed their interest. Nevertheless, we still stood by our decision to devote no more than 50 percent of our time and energy to investment processes. We decided that we will continue to dedicate the other half to managing IAI. We wanted to avoid a situation where focusing too much on potential investors, due diligence etc. would make us lose sight of what's most important – business growth – and therefore lose our impact. The result? Some investors may have felt that we were not treating them with due intensity, but the arguments we made were compelling: diminishing growth could serve as additional arguments to lower our valuation. Interestingly, MCI was able to appreciate that, and saw value in our commitment to the company.

Sebastian Muliński and **Paweł Fornalski** are managers and co-founders of IAI S.A, a company offering comprehensive support for online stores and accommodation reservations based on SaaS. This solution makes it possible to create an online store or online wholesale platform and support business (including traffic generation, payment processing, shipping, big data analysis). IAI is a leader in the fast-growing online shop market in Poland.

After due diligence, all investors always prepare a short list of hidden weaknesses of a given company. Just before signing the contract, they produce this short list from their sleeve and bring the company's valuation a further couple of percent down.

2. Keep the schedule and the competition within the process

Why was it worth it to go for the idea of a kind of beauty contest among investors (though MCI may disagree on this point)? Because this is where the second component of the process lies – a strict schedule, step by step, stage by stage. This meant that the original starters gradually dropped out or were eliminated by us as the race progressed – we had an up-to-date comparison of the approach and conditions offered by individual investors, almost on a live basis. What's more, all of the participants in the process were aware of this set-up, which meant that they, in a way, competed against each other, maintaining the pace and quality of the investment process. Hence, for IAI these 11 months were not all chaos, but a linear process, planned with successful investment in mind.

3. Clean out your closet before you sit down at the table

"That's odd" – is what we heard from all sides when IAI turned out not to have any skeletons in the closet. And having such skeletons can have a tremendous impact during the final stage of negotiations. Experienced lawyers assured us that, after careful due diligence, all investors always prepare a short list of hidden weaknesses of a given company. Just before signing the contract, the investor produces this short list from their sleeve and brings the company's valuation a further couple of percent down. We, on the other hand, approached the finals without any pretence or any unpleasant surprises in our ranks. This approach boosted investor confidence in us, resulting in relatively few provisions in the investment agreement that would show the fund to have limited trust in the foundations of IAI. In addition, having our closets in order meant that the final offers we received were higher than the original ones – which is not often the case with such transactions.

4. Choose a good partner who will support your investor relations

We settled on EY, a top-of-the-line advisor with top-of-the-line prices. However, we quickly found out that it was a price worth paying. A good partner is one who serves as the first contact with investors and alleviates the impression of indifference when the founders are engaged with business growth. A strong partner is also a kind of a coach: he sets a practical schedule, motivates you in moments of weakness, demonstrates small strategies to improve the quality of investor relations. They give advice on how to appear several million zlotys more valuable. And finally: they are in the right weight class to serve as the ideal sparring partner for powerful and experienced funds or investors. A good investment advisor is a clear signal to the other side that they are sitting down with serious people to talk about serious money.

Handshakes in the unicorn perspective

Why should investors pay more attention to the CEE region

Franz Hoerhager

Before I met Tomek Czechowicz, whom I sometimes call "Digital Tomek," I already had had a definite opinion about opportunities, risks and people in Poland and CEE region. It was a good opinion. The country might have changed over the years but it has always been a place where investors could do plenty of great things. I have been studying Poland for a long time. Before I started my own business, I had worked for 20 years at the Bank Austria, now taken over by Uni-Credit. Then, back in the 1980s, Vienna played the key role of a hub or a bridge between the capitalist West and the communist East. And it was not far away from Poland, which interested me from both a business and scientific point of view as I was keen to analyse a phenomenon of centrally planned economy

where life was delimited by subsequent 5-year plans. It was then that I got to know and understand Poland and other countries from the Eastern Bloc, their citizens and their attitudes to life. I noticed the latent potential of the area, which is still here today.

No wonder that during the turbulent transformation period I was a regular visitor to Warsaw, and although the economic situation was often unpredictable and dynamic, I learned to trust the market and the "made in Poland" economy. When, at the beginning of the 21st century, I decided to start my own business, it was clear to me that Poland would be one of its pivots. Mezzanine Management was a mix of banking know-how and entrepreneurial investment, supported by knowledge of emerging markets. Poles are very entrepreneurial, in the definitely British style, whereas their commitment and resourcefulness definitely beat what, for instance, the Balkan nations have to offer. Tomek Czechowicz is a living proof for that.

I remember well our first meeting, over 10 years ago at a conference in Berlin. I wanted to sell him one company. We only talked for 3 minutes when I heard: "The price is too high." Now, after so many deals that we have closed together, I already know that he is a great negotiator with nerves of steel and unparalleled energy. In our industry, it is said that MCI's success comes as no surprise given that

Franz Hoerhager, holds a CEO position of Mezzanine Management, which he co-founded in 2000. In his rich career he was also a managing director at Bank Austria and a deputy general manager at the Creditanstalt branch in New York. Mezzanine Management built a partnership & friendship relation with MCI, based on several common deals.

Poles are very entrepreneurial, in the definitely British style, whereas their commitment and resourcefulness definitely beat what, for instance, the Balkan nations have to offer. Tomek Czechowicz is a living proof for that.

it is managed by a man who lives 3 lives at the same time. To this day, I do not know how he manages to conquer the Matterhorn or complete an Ironman triathlon and simultaneously negotiate something like a multimillion IPO. Where does his energy come from? For sure he is driven by the fact that he can be and act at the epicentre of events, and so MCI is like that too. Tomek is a straight talker who refuses to accept the bullshit mode. It means that he can be trusted in any situation: his handshake means "deal done" and not "deal done but..."

That is why Mezzanine Management and MCI is a partnership & friendship relation. Together we handle multiple deals, such as PEM, ATM, ABC Data, Netrisk or Invia. Do things always look rosy? No, but in case of any problems, we are fair partners. We support and complement each other. Despite an anecdote from our first meeting, Tomek is a deal maker, and his financial status gives him considerable leeway during negotiations. Of course, he and his team approach the transactions in a resolute manner, but never without a high degree of rationality and flexibility. Therefore, MCI along with "Digital Tomek" have the potential to be a regional champion and a stable for region-born unicorns.

MCI 20TH ANNIVERSARY

The 3 drivers of MCI's success

What investment banks look for in a PE fund

Michał Popiołek

1. An infectious audacity

Tomek Czechowicz certainly knows how to infect others with his vision. He achieves this by applying his enthusiasm, personality, as well as his knowledge, results, and experiences. And this makes him all the more persuasive. In this context, there is a strictly mBank-related thread coming back to Tomek: he was the one to convince me to create a strong mezzanine finance department in the bank. The story goes back almost 15 years, when MCI matured from a small VC into bigger projects, and when we at mBank were going through significant changes. At that time, Tomek and I had various ideas for potential joint "fund-bank" investments. However, sometime in 2005, after the changes, the plug was pulled – we now knew the bank would no longer make direct investments. However, this did not diminish our enthusiasm for partnership. During one dinner, then the next, Tomek was pushing the idea of "mezz" or bank mezzanine financing. He pitched a notion, an idea. He explained how this was done in the West, and asked point-blank: "why couldn't you do that as the only ones in Poland at a bank rate?" It snowballed from there – I quickly picked up the idea, we took up a mezzanine financing crash course, and after one and a half year we were ready to work in that field. The story then came full circle, because the first "mezz" transaction was concluded in cooperation with MCI Capital. The transaction in question was the acquisition of ABC Data – a very successful one, I might add.

Michał Popiołek, Managing Director for Global and Investment Banking at mBank. He has worked for mBank for over ten years, where he is in charge of private equity investments, portfolio investments, and others. Previously, he had worked in consulting firms and in Citibank, where he participated in numerous M&A transactions.

2. Hands on the wheel

We now know, years later, that the ABC Data deal was one of the transactions that moved MCI up a weight class. Was it just the nose for investment of a private equity fund? I doubt that. ABC Data was not a sure-fire hit, a one-of-a-kind gem. It turned out to be a success for MCI partly because of the company's ability to switch to a "hands-on mode" in their company relations. Something I've heard for years at conferences and discussions of all kinds is that funds stay very close to their investments, understand them and enter into its processes dynamically, giving support in moments of slowdown or crisis. Tomek and his crew are able to do that. They have the know-how, commitment and intuition needed to take control of the steering wheel when the project is veering off-course and get it back on track. I have seen them in action more than once, which is why despite the risks associated with every investment, I have absolute confidence in the ones we do with MCI.

3. Feeling out the pace

Funds should stay very close to their investments, understand them and enter into its processes dynamically, giving support in moments of slowdown or crisis. They must have the know-how, commitment and intuition needed to take control of the steering wheel when the project is veering off-course and get it back on track.

Emphasis on the "do." The talent of Tomek and MCI as an organization also stems from the fact that they're a team of doers – people who are not afraid to make decisions, who feel the strongest in the very centre of action, that's where they fly high. The next 2-3 years are expected to be a busy time for the private equity industry, and that's why I believe that MCI will be one of the main beneficiaries of this trend, continuously demonstrating how good they are at their job. The "cash is king" approach (as heard in the halls of MCI) makes it possible to identify unique opportunities in all market conditions. Opportunities will also arise, for example, from the lack of succession in companies established in the 1990s. There will certainly be no shortage of candidates for this race in the M&A sector. At present, MCI has many advantages within this group. The young MCI kept an eye on the larger funds from the West, learned from their mistakes and built professional investment mechanisms based on the Western know-how. The company has always been brimming with confidence, vision, and courage. Now, the fund has gained another significant and unique skill: to sense when to let others have their fun, and when to bid a little faster and fiercer than the competition – so that a valuable transaction does not slip through their fingers.

Building a champion with the investor's entrepreneur spirit

How to quickly develop your company in cooperation with your investor

Ondrej Fryc

Is it true that Tomasz Czechowicz had made several attempts to invest in MALL.CZ before MCI finally became a shareholder in the company?

Yes, we met many times before. I saw Tomek's commitment and a thorough understanding of e-commerce. And in the end, it paid off. Tomek was the first person I called when I needed a new investor to very quickly replace the current one.

So MCI in MALL.CZ was a no-brainer, wasn't it?

Oh, it was. The context was that one of the then investors lost faith in MALL.CZ. Indeed, we were going through a difficult period, and our results were dropping after a hard implementation of SAP. But we, that is I and the fellow founders and shareholders of the company, including Intel, believed in it with 100% certainty, as we knew that the problems were only temporary. In order to raise capital for development, we even mortgaged our own houses (again). On top of cash needed for the business itself, we also needed to buy out the other investor who practically blocked us. That was tricky situation.

Why was MCI a willing risk-taker?

There were several reasons for that. Firstly, Tomek is an entrepreneur, so he does not approach people and businesses like investment banks, for instance. Secondly, MCI knew the company and myself well and had appreciated the commitments I made with pledging my own house. And thirdly, MCI is very flexible and able to think out of the box. And so we were able to skip the fuss of complicated due diligence, for instance. We simply had to negotiate an agreement on prices and deadlines, which we did during intensive meetings with no empty words.

Did it not change after the transaction? Didn't your relations go sour?

It happened that MCI partners had a different opinion than I did about business moves from time to time, but they never changed in one aspect: they respected and fully trusted me. They never tried to undermine my authority in the company or overly control it. Everyone in the industry knows the style of MCI and its boss. With them, there is no time for long deliberations. Sure, Tomek is all over the place at times and it can be unpredictable. But he is so

Ondrej Fryc, one of the most successful businessmen in the Czech Republic. He has built and managed one of the largest Internet shops in Europe, MALL.CZ, supported by Intel Capital and MCI. He sold MALL.CZ in 2012 in the largest Czech e-commerce transaction to date. He used the sale proceeds to fund Reflex Capital, which has been his focus since then.

On the path towards achieving that goal, victories were more frequent than defeats, as we used almost every opportunity that appeared. Besides, I have very fond memories of our defeats. After all, the entire MALL.CZ was built around embracing failures. Who does nothing, makes no mistakes. And we did a lot of things.

clever and competent, that for me it was a pleasure. I am also quick and opinionated at times. We are definitely on the same wavelength. We were usually able to go through critical, strategic decisions in less than twenty minutes.

Was it your goal, from the very start, to become a regional leader? Was it a precise plan?

No, the plans were not that explicit, and there were no step-by-step schedules either. We were certain that we wanted to grow quickly, and increase our revenues and value. On the path towards achieving that goal, victories were more frequent than defeats, as we used almost every opportunity that appeared. Besides, I have very fond memories of our defeats. After all, the entire MALL.CZ was built around embracing failures, the motto was that only he, who does nothing, makes no mistakes. And we did a lot of things.

After several years together, you made it to a very successful exit. But it turned out that it could only be a foretaste of your next, adventure with MALL.CZ.

Yes, the sale to Naspers was a big deal, a great success. However, not everyone was aware that I, as the CEO and a co-founder, maintained my operational role in the company for the years to come, with still a very big shareholding. The partnership worked well for the first year, when I was reporting to Naspers original CEO in South Africa. Being an entrepreneur himself, he respected my style and gave me a lot of freedom. It paid off – we grew over 30% the first year, with a higher gross margin. I admired the style he ran Naspers and thought I would stay there indefinitely. But then Koos Bekker retired and handed the company over to completely new management. All the old board buddies were pushed out. It soon occurred that the new style was more authoritative and I did not feel as a partner stakeholder, but as a peripheral subordinate. And I am not good at being a part of a corporate machine, reporting to higher levels of the corporate ladder and playing politics. I was really uneasy about that and I bet Naspers was uneasy about my behaviour as well. There were also disputes about strategic orientation of the company development. Therefore, together with Naspers, we decided to sell the company again – at that time it was already known as Netretail and operated in several European countries.

And so you called MCI again...

After the internal disputes and leadership misalignment, the company was not in a great shape and I saw opportunity to make it great again. We arranged a plan with MCI how to take Netretail over and become partners there again. Unfortunately, we were outbid, but I still have a small, passive interest in the business. This does not mean that Tomek and I do not have some new, mutually interesting topics to talk about. I am a VC investor now and I hope that maybe we will make some deal with MCI soon. Maybe together we will raise a unicorn?

A steering wheel is the driver's thing

How to create and correctly scale groups of technological companies

Piotr Sieluk

What were the circumstances of your joining a listed company, ATM in the summer of 2017, weren't they?

It was a crucial time for ATM back then. I realised that when I heard the tone of voice of Maciej Kowalski, a partner in MCI, when he first called me about that matter. I had just completed a successful "rescue mission" for a Slovak telecommunications operator. Maciek explained to me that they were looking for new, efficient and determined leaders to navigate ATM through turbulent waters. I was given *carte blanche*, and soon we developed a plan of individual phases of changes in ATM, so as to build a Polish leader in infrastructural services for IT solutions targeted at the B2B market, i.e. collocation, hosting, cloud computing with managed services, and data transmission.

Staff cuts were first on your to-do list?

Absolutely not. My diagnosis was quite the opposite. In my opinion, the company was suffering from managerial and product anorexia. I repeatedly told Maciek that if ATM was to be the best in Poland and win the market, it had to place its bet on quality. Therefore, slimming the business was not an option at all. I focused on investments, even at the expense of short-term profitability. We invested in people, as well as in new solutions and technologies, while we continued to increase sales. These few quarters were crazy. We started our adventure with ATM like Williams' car in this season of F1 (far from the other teams tempo). We had a drivable racing car, but we understood how much work it would take to make it faster. And with consistent efforts, with no magic tricks involved, we are able improve our results from one month to the next.

What made it possible to boost the speed?

Initially, people and skills were in short supply, so I started to build an ecosystem, a certain intelligence pool within the company. In ATM, I did not find routines, goals, or even quality, which quite surprised me, in the field of technology. What the company missed was an internal energy for growth, fuel for development, and determination to compete in a difficult market. MCI saw it too.

Piotr Sieluk has over 20 years of managerial experience, including from Deloitte&Touche, PwC, Energis Polska, and Gravitas Management. As CEO at GTS Polska (providing integrated services to corporate customers in Poland), he was responsible for building the value of the Polish leg of the Group. He had held the function until the company was sold to the Deutsche Telekom Group. Initially, at ATM he was acting CEO. Currently, he is the vice-president of the company's supervisory board.

We are building value that will not be the outcome of one large contract or a temporary winning streak. It is hard work at the grassroots. These are subsequent pieces of a jigsaw puzzle that build an effective structure.

So it was necessary to put your foot down in managerial and investment terms...

In less than 2 years, ATM has come a long way. If we stick to the analogy of F1: we already have a new diffuser, tires, and better aerodynamics. We are not afraid that fast cornering will result in a loss of grip. When I look at our current results, I see that we are on the right path: we are pushing forward as hard as we planned. We are going to record a two-digit increase y/y. We have a great team of employees, we have built a business culture focused on customers, and we have created a comprehensive service proposal for IT solutions, based on our own infrastructure: from data transmission, collocation, dedicated servers, cloud computing services, up to the application level.

It is said that MCI, while building the value of companies, is able to implement the "hands-on" tactics at critical moments. Can you feel the fund breathing in the backseat?

As I understand it, the "hands-on" approach, i.e. direct interference in the business, was put into practice when I was asked to join the company. Since my start here, I have been holding the steering wheel firmly in my hands. My managers and I know the ambitions of MCI and its expectations as to the return on investment. However, we do not deal with any unrealistic pressure here. If anything, it is all about thoughtful support. Trust from MCI pays off, as does the fact that we always deliver to the plan: month after month.

MCI 20TH ANNIVERSARY

The success of parachute management in private equity is measured by the successful exit of the fund. Is ATM ready for it?

A potential exit has been included in our project from the very beginning, and everyone in the ATM ecosystem knows that we are building value here that will not be the outcome of one large contract or a temporary winning streak. It is hard work at the grassroots. These are subsequent pieces of a jigsaw puzzle that build an effective structure. Thanks to this, ATM's racing car is on the right track now. Revenues go up, but we still have enormous growth potential. We have clear goals, and we are transparently managed. These are all essential components affecting the "transactionability" of the company. ATM in its business structure is the sum of various, smaller and larger, components. ATM is also the business intuition of MCI' team, which was able to react quickly to the smouldering crisis and, at the same time, give its leaders a strong support. The latter manifests itself even in the fact that when they see confident driving, they trust the driver and refrain from playing the wise-guy.

Big vision goes with smart investors

How to make grand dreams come true

Magnus Nilsson

Was iZettle programmed at the beginning as a future unicorn?

Oh, the term unicorn probably didn't exist back when iZettle was founded in 2010! And even if it had, the answer is no. Our only focus was to make life easier for small businesses by solving their biggest headaches: that was our recipe for success. That said, we wouldn't have jumped at this opportunity without having a big vision – to help a huge and underserved segment of the economy to get paid and run their business. Once we had validated our service and gotten some great investors onboard, we could start thinking bigger.

MCI 20TH ANNIVERSARY

So what did you need private equity – especially MCI – for?

We always chose to work with investors with relevant expertise and a high quality support, the funding itself was just the means to get there. Early on, during our discussions with MCI, it became clear to us that MCI would add unique value during a crucial period of our growth. In particular, detailed discussions around the industry challenges made it clear early on that not only did MCI have funds at its hands but also vital and relevant knowledge that could be used during our expansion.

Unicorn scale sounds great now, but I guess getting there is not a constant highway to heaven. Even with strong investors.

Sure. A huge issue was the time. And again, people underestimate the complexity of building a globally scalable fintech company. The 12 markets where iZettle is present today are all very different from one another, both in terms of consumer behaviours and regulations, which have brought many challenges along the way.

One big obstacle came just following our Series B round, in the summer of 2012. What happened was that the rules for the authentication of card payments were changed almost overnight by the big card networks. The new rules dictated that you weren't able to accept card payments via on-screen signatures on a smartphone. This meant that our flagship product – a card reader that connected to

Magnus Nilsson – for 20 years now active on the Scandinavian venture capital market. In 2010, together with partners, he established iZettle – a fintech company specialising in the acceptance of mobile payments for medium-sized, small and micro enterprises. In 2015 MCI decided to invest in iZettle. And last year the company co-managed by Nilsson was taken over by PayPal for 2.2 billion USD.

Rather than big breakthroughs, this has been a hard-fought, gradual process made possible by our the highly capable teams working around the globe.

a smartphone – became obsolete. Luckily, our fantastic hardware and engineering teams managed to develop a new PIN-compatible card reader within a matter of months. Another constant question is related to access to capital when building something where customer acquisition and the costs associated come way before revenues. Growing quickly with a constant need for funding – this is something you can lose your sleep over!

You see quick growth in a milestone perspective? What were they?

Rather than big breakthroughs, this has been a hard-fought, gradual process made possible by the highly capable teams working at iZettle around the globe. One highlight is our UK market: The way we were able to establish brand awareness and pioneer important collaborations set the tone for our European expansion. Along the way, each of our product launches has been a key milestone on our ongoing journey to meet the ever-evolving needs of micro-, nano- and small businesses. This includes launching the world's first contactless mobile card reader, and our cash advance feature, iZettle Advance, which disrupts the way small businesses can access financing. We can quote one example where MCI was of great help. It was during the evaluation phase of a potential country launch – through MCI we quickly got access to all the right people and companies required before making a decision.

Do you predict that a fintech & MCI story is going to be continued, based on a boom connected to e.g. PSD2, open banking?

Yes, the fintech boom has been under way for quite some time in Europe, and the sector is maturing through major acquisitions and IPOs. The data revolution enabled by PSD2 is a global opportunity and Europe has a head start. New companies cropping up in Europe are acting as data platforms between banks and consumers, on top of which the next generation of fintech services will be built. But we shouldn't forget that the big tech firms in China and the US are still serious movers and shakers in fintech.

Fintech eruption is not going to stop

How to develop within the European fintech sector

Oskar Mielczarek de la Miel

2018 was a landmark year for fintech globally, as start-ups attracted capital from large pools of venture capital, private equity, and corporate players. Fintech companies raised over $39 billion, a 120% increase from 2017, with 1,707 deals, a 15% increase, marked by larger transactions and an average deal size doubling to $23 million.

Fintech startups continue to stir the traditional finance industry. After rapidly acquiring large customer bases with their original services, e.g. payments, remittances, asset management, as they become larger, startups now are branching into other lines of business potentially threating other traditional customer bases by cross-selling products. Examples include, payments platforms offering lending or insurance; or personal finance management apps offering wealth management or lending. At the same time the fight for customer acquisition intensifies causing downward stickiness in customer acquisition costs, particularly as better funded traditional players continue to improve their own technologies and massive rounds of funding by valuation-insensitive players attempt to create "winner-takes-it-all" examples in certain categories. 2019 continues to see the convergence of traditional and new platforms as the latter are acquired for their nimble technologies or due to their millennial or Gen Z customer bases. While valuations remain rich, investors are banking on the rapid growth of these assets.

The relationship between established players and challengers sustains co-existence. Banks in particular continue to catch up with the challengers by developing some of these services in-house, as barriers to acquisition include regulations, the massive cost of replacing legacy infrastructures and the challenges of new product integration. Some established players remain close to the startups by joining their capital base and boards as strategic investors. Fintech startups, on the other hand, continue to be challenged by fiduciary and compliance issues as regulators are zooming in, seeking the protection or the know-how of talent from the incumbents. Lastly, we expect building solutions for SMBs as the next battleground for fintech startups, a much larger

Oskar Mielczarek de la Miel, managing partner in charge of the FinTech Fund and Mobility Investments in japanese Rakuten, one the biggest private equity globally. He has led multiple investments in the fintech space and ride sharing, including Lyft, Cabify, and Careem. Prior to joining Rakuten, Oskar had extensive experience in the financial industry, including in investment banking and capital markets while at J.P. Morgan and Merrill Lynch.

In the financial industry the relationship between established players and challengers sustains co-existence.

market than consumer, with startups such as Stripe, which for instance processes online payments for businesses, valued as high as $22.5 billion.

Rakuten's growing presence in Europe over the past few years with acquisitions in e-commerce and digital media, or the establishment of a bank in Luxembourg, together with its partnership with the FC Barcelona evince our optimism for the region. With a razor-sharp focus on technology and innovation, MCI has proved to be a great partner, a proponent for growth and adoption of technology in Poland and Eastern Europe. With its strong reputation as a catalyst for innovation, MCI Capital has backed numerous businesses with a positive impact on the lives of millions. MCI is also a co-investor with Rakuten in the London-headquartered online remittance leader Azimo, whose tech team is headquartered in Krakow. Central and Eastern Europe has historically proven itself to be a tech talent powerhouse and we strongly believe in the region' potential. Software developers have contributed immensely in the development of global brands such as Skype and Avast among others. Governments open to innovation are supporting the trend. Lithuania has one of the fastest license issuing process in Europe, and Poland's progress on Sandbox regulations supports the practical implementation of fintech solutions. Consequently, we remain bullish on the industry, particularly digital banking, payments, and insurance.

Building a brand. 5 insights on the pursuit of greatness

How to develop an all-European brand

Krzysztof Bajołek

1. Don't always trust the path well-trodden

When we were starting with Answear, both me and my colleagues had extensive experience acquired in the traditional sector: after all, we had built such brands as House and Mohito. On the one hand, it was a boon – many things were obvious to us, we didn't have to learn everything from scratch or to force the doors open, because very often, they were already open for us or we knew where to find the right keys. On the other hand, the past sometimes… got in the way. An open mind keeps you from sticking only to proven solutions, which makes for a narrow point of view. E-commerce is, however, a slightly different market segment than sales in a brick and mortar shop. Therefore, I believe that we will be the first company in Poland

– as well as in the CEE region – which will successfully build its own online segment brand, but at the same time I do realise that we probably haven't fully tapped into the available potential. For example, the potential stemming from opportunities for partnership with owners of other brands, which have their own unique position on the market and years of customer awareness.

Krzysztof Bajołek, creator and co-founder of Answear.com, a multibrand e-commerce platform that sells brand clothing, currently operating in 6 European markets. Co-creator of Arman (House and Mohito brands) acquired in 2008 by LPP and valued at almost PLN 400 million.

2. The running technique makes a difference

When establishing a European business and brand "from scratch," one needs to establish a clear, common vision of what is to be achieved. A strategy, milestones and KPIs must be established to match that vision, to be able to judge whether we are moving in the right direction. There is no instant success here, losses will have to be covered and the company funded, all the while contending with aggressive competitors. Building Answear requires the partners and investors to build a mutual, deep trust in each other and in the course of its development. This is a must if you want to quickly scale your business and – like Answear – enter new countries even before your position on the domestic market is substantiated by generated profits. The pace of development and the construction of international revenue streams and brand recognition is crucial in the fashion segment. This is a race, the biggest wins go to the biggest players. At the same time Answear carefully considered every step in its marketing sprint: for us, building a brand also means establishing the best possible mechanisms incorporated into the business model. They are to pay off in the future by outpacing the competition in terms of profitability, business scalability or adaptation for further expansion. Such a brand can count on what every entrepreneur and investor fights for: a higher valuation of the company.

3. Look for smart money

MCI showed up at Answear at an interesting time – in 2013, when me and my previous partner went separate ways, and I did not want to limit the scope of my business. I saw the potential for future growth and rapid business scaling, but this required funding. What made me choose MCI? Not without significance was the fact that the fund had more than capital – it was able to deftly navigate the world of new technologies and the e-commerce sector. Having a partner with whom you can have a real discussion about the issues of strategy, new technologies, market development and the best solutions for our business was very important at the time. Simply put, Tomasz Czechowicz and his team have impressed me many times in this regard. Having such a partner made the option of entering foreign markets seem easier and more realistic. After all, though e-commerce is a business without borders and carries the promise of expansion, it also carries risks arising from the need to compete on

Look for smart money, a partner with whom you can have a real discussion about the issues of strategy, new technologies, market development and the best solutions for your business.

the market with globally operating entities that outperform local companies in terms of capital, experience, and scale of operations.

4. Compromise is forged, not imposed

The negotiations were not easy, and required large amounts of patience and caution in making compromises. MCI requires certain investment standards which are not always easy to accept by a commercial entrepreneur. You need to balance the potential benefits and inconvenience, to recognise when to give ground so that the compromise is feasible and attractive for both parties. We have managed to achieve a compromise and I believe that MCI has the same feeling.

5. Give knowledge and competences, take courage and vision

The fact that we are more than a run of the mill company is not a coincidence: it is a function of several elements such as the experience and success story of Artman (the previous company), and a strong team of people – they were the ones who created this business from the very beginning. As a team, we perfectly knew the fashion industry, potential suppliers, we knew how to manage our business in order to make it scalable in Poland and other countries. We were able to look for further profits – these are our advantages when building a brand. Of course, the strong position of Answear in the industry did not hurt, and neither did the vision of further growth in the rapidly growing, new market segment. At the same time, we knew exactly what we were missing: MCI therefore brought to the table a bold thinking about the future, about the changes that await us, the emerging technologies and the ways they can be used to create an advantage for the Answear brand and facilitate its faster growth. Such a mix still gives us fuel for growth: despite the emergence of extensive competition on the market, the brand is growing rapidly. And I expect that the best times for Answear are yet to come.

Exit in fintech is all about flexibility

How to sell a company in cooperation with an investor

Andrzej Budzik

One should not consider selling a fintech company an extraordinary event – no strokes of good luck, no exceptionally good deals, and no temporary booms on the market should be expected or hoped for. MCI was well aware of that as it took control of Dotpay. We, the managers, focused on being honest and open in our relations with the fund and we set clear objectives right from the start – this is why it is so important to understand what we are selling, to whom, and how at the moment when MCI decides to exercise its exit option. The fund knew that it found a thing of great value on the market. It merged Dotpay with eCard to complement it and realised that it then became possible to sell the entire business quickly and at good profit. Taking the option to exit the investment even at that time made it possible to set the entire organisation in the right

direction. This was by no means merely trying to "give the company a paint job" before selling it – we wanted to change its profile so as to meet the expectations of specific groups of possible buyers.

Clear the scenarios

Flexibility is a part of everyday functioning for fintech companies trying to win a major transaction or funding. Such an attitude is important when setting the parameters of the organisation as part of preparing it for rapid expansion or optimisation. At the same time, one should bear in mind that there should be limits to such flexibility – those are defined by terms, conditions, and scenarios for key managers negotiated for exit. Such issues are to be taken into account at the very onset of activity as people from the world of private equity are adept at that. Consequently, if management sets clear limits for negotiations, its position – which tends to be markedly weaker at the beginning – may improve. Nothing is better for ensuring successful future cooperation between managers and a fund than a situation where both parties to negotiations leave the table feeling as if they got the better deal out of it.

No skeletons included

Those last dozen or so of calendar quarters with MCI on board have been very dynamic and clearly demonstrated that funds function according to special rules related to things such as de-investment

Andrzej Budzik, one of the creators of Dotpay in which MCI invested in 2016. That investment turned out to have been an excellent decision for the fund, bringing results of 3.0x CoC (cash-on-cash) and an IRR of almost 40 percent after Nets (a Danish corporation owned by global fund Hellman & Friedman), took over the group to which Dotpay belonged for PLN 315 million.

Nothing is better for ensuring successful future cooperation between managers and a fund than a situation where both parties to negotiations leave the table feeling as if they got the better deal out of it.

momentum and risk assessments within companies. At one point, it occurred to me and to other managers of Dotpay that MCI did not intend to win over the entire payment market on a higher level, certain aggressive takeovers fell through. That was a clear signal that MCI was planning to sell the company – it's clear that fund must be responsible and regularly show numbers for its investors. For me and for Dotpay, it meant second such transaction over the course of 3 years. With this in mind, we assumed a very open and transparent approach towards the market and put up our company for a "beauty pageant" of sorts. The process was intense but clear and smooth – Dotpay was a profitable company ready to be taken over. Its organisational structure was perfectly transparent and there were no skeletons in its closet. Such fintech companies attract investors, especially in the context of PSD2 implementation and in light of there being prognoses that the online payment segment is soon to be reshaped.

Manage the risk

Negotiations with Nets and other funds meant that the core part of the company had to work at the very top of its capacity for several months. Ultimately, the fact that MCI and Dotpay exercised wisdom was very helpful for even though things were rough a couple of times, it helped us all to know the exact position we were in. MCI was unwilling to risk replacing managers or causing a conflict with the management board right before the transaction. In turn, the management board – myself included – tried to remain friendly with both parties to the transaction, receiving support also from the future investor in relation to potentially contentious settlements. Nets saw all advantages of Dotpay, not only the technological edge it had but also its team. We could feel that. In the end, MCI concluded one of the best deals in its history and the new investor followed a path of aggressive development and acquisition, facing new challenges and trying to win over a large portion of a very promising market by using its deep capital resources.

Our future depends on us learning to cooperate

How does cooperation create good conditions for innovation

Aleksander Kutela

Poland is one of the fastest-growing economies. Despite limited resources, we have become one of the global leaders of digital transformation. We occupy top spots of all global indices of innovation, entrepreneurship, and competitiveness. This came to be thanks to concentrating resources on selected industries, friendly legal and tax environments, and a perfect cooperation between companies, scientific institutions, and the government – sounds great? Unfortunately, this is not yet the reality. This is a vision of the future that has brought together several Polish and international companies operating in Poland,

including Ringier Axel Springer Polska, Microsoft, Visa, Polpharma, Ghelamco, T-Mobile, UPC, Daftcode, Baker McKenzie, and MCI.

Making the synergy

Each subsequent industrial revolution carries with it new, ever-growing challenges, and each one divides the world into the winners and the losers. In this age of digital transformation, capital, efficient enterprises and scientific centres are no longer enough to win and successfully compete on the international arena. The key competence is the ability to cooperate – to exchange ideas, to create and develop joint projects. Today, these most groundbreaking innovations are created and are effectively developed in places with full-fledged ecosystems – clusters where all entities (enterprises, research centres and investors) simultaneously compete and cooperate with each other, thus complementing each other's competences. Only such a system can create the full effect of synergy and give above-average results.

Digital Poland Foundation

Is this process taking place in Poland? Despite our many successes over the last thirty years, the level of social capital in Poland is still low (see studies conducted by the team of the professors Janusz Czapiński and Tomasz Panek). This means that our ability to cooperate and develop joint projects is not our strong suit. In the context of digital transforma-

Aleksander Kutela, CEO of Onet, VP of Ringier Axel Springer Polska and Member of the Supervisory Board of ING Bank Śląski. Previously related to HBO, e.g. as the President of HBO Polska and Senior Vice President of HBO Europe. He also serves as the president of the board of the Digital Poland Foundation, whose mission is to turn digital challenges into opportunities for the Polish economy.

Ability to cooperate and develop joint projects is not our strong suit. This is a powerful threat that can effectively slow down the growth and development of digital Poland.

tion, this is a powerful threat that can effectively slow down the growth and development we have seen in Poland over the past decades. Therefore, we decided to establish the Digital Poland Foundation within a group of companies for whom the development of the digital economy is particularly important. It is important to us that through cooperation, combining resources, knowledge and contacts, Poland makes full use of the opportunities offered by the digital transformation and has become one of the leading centres of the global ecosystem of entrepreneurship and innovation. We cooperate closely with Digital Switzerland – our correspondent institution – which had a huge impact on Switzerland's development in this sector.

3 steps to the Valley

We believe that we will succeed if we meet three conditions. They are:

1. We will build a full ecosystem, a cluster of digital innovations like those operating in the Silicon Valley, London or Shanghai. One in which all the key elements, e.g. enterprises, scientific institutions, the capital, legal and tax regulations, create synergy and form a platform for the development of innovation.

2. We will effectively integrate Poland into the global ecosystem by promoting Polish companies and projects abroad, and by strengthening

the cooperation of the Polish side with leading advanced innovation centres abroad.

3. We focus on education for Poles and promoting digital transformation in Poland. We support companies in the “offline to online” transformation and help the public understand both the opportunities and the risks of digitalisation.

From words to actions

Though the Foundation has been operating for a short time, we have already created many initiatives together. We have developed reports, “maps” and educational programs on AI. We have organized several “RoundTables” with the participation of companies and representatives of the government, hackathons or educational trips abroad. Together, we are creating a “Digital CEO” series of debates, where the heads of companies have the opportunity to share their experiences and find out what opportunities digitalization offers in a relaxed setting. The Foundation has also created an elite list of Digital Shapers, whose aim is to acknowledge those leaders who have particularly contributed to the success of digital transformation in Poland. Their role is extremely important, because every great project needs great leaders, who serve as the role model and inspiration. Members of the foundation have also developed joint Fintech, Smart City, IoT, 5G and Cybersecurity projects. Together, during the Festival of Digitization in autumn, we will popularize the latest technologies, benefits and opportunities of digitalization

Unicorns made in Poland

The Foundation proves that cooperation despite differences in Poland is possible – though there is room for improvement. At present, most of the Foundation's members are international corporations that see enormous potential in Poland. They want to build a professional digital market and develop their innovation centres in our country. However, relatively few Polish companies are involved in the project. This is why the active participation of MCI in the development of the Foundation's idea is appreciated and deserves recognition. On the one hand, by investing in modern Polish companies, MCI serves as an important driver of growth for the new economy and as an important component of the digital transformation. On the other hand, by actively working in the Foundation and supporting many joint initiatives, MCI serves as a perfect example and inspiration for other local companies, demonstrating how to create synergy and build long-term success for all. After all, digital transformations the likes of the Silicon Valley or Tel-Aviv need deep ecosystems, based on the rich, active net of relationships. Only this kind of cooperation seems to bear fruit in the form of local digital champions who can then achieve global successes.

MCI 20TH ANNIVERSARY

Digital strategy is an aggressive strategy

How to speed the digitization of your business model up

Sebestyén László, Tamás Scheidler

Netrisk has a history of over 25 years. Is there any spirit of analogue left in you?

Sebestyén László (SL): Well, we are analogous to a degree, because our strength still lies in our people. However, over the past dozen years or so, the digital channel has had the most significance in the sales model and in the profit sources. When Enterprise Investors joined our company in 2010, Netrisk had already been a leading independent broker in Hungary, still dealing with (almost exclusively) the distribution of compulsory third party motor insurance. EI introduced changes in the management team and Netrisk.hu has experienced a rapid growth in all segments of the insurance market of their interest: motor insurance (accident insurance and third party insurance), assets and travel insurance. In addition

Each of our acquisitions must not be finalized. It is good to see the wide picture, though. By having an aggressive investor we are fighting for the big pool, scaling up new levels.

Sebestyén László, CEO of Netrisk, has more than 20 years of experience in the insurance market. Over the years he worked as one of the leaders of Generali Group in Hungary – among others as a member of the Board of Directors of Genertel, the first Hungarian direct insurance company. Currently he is the General Manager of Netrisk and the head of FBAMSZ, Hungarian Association of Independent Insurance Brokers.

Tamás Scheidler, CFO of Netrisk, is an experienced financier who has previously worked on increasing the efficiency

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to that, new business lines were created – we are one of the largest online platforms which sell retail banking products.

Tamás Scheidler (TS): The non-life insurance market in Hungary is valued at over EUR 1.5 bln, where the online sector constitutes as much as at least 20 percent. Netrisk is a leader in this field and has taken up approx. 30% of the market. We are trying to improve our business by turning into our digital version 3.0, planning new solutions in this ecosystem and introducing new fintech elements in our company.

What is the role of the new investor in this scenario?

SL: In principle, our business model has not changed since last year. However, a lot has changed in practice – we are an organization with focuses on rapid, aggressive development. Such bravado is crucial in the world of fierce competition. We have the financial means for takeovers and it gives us new perspectives.

TS: The previous investor had a more conservative approach to the development of our company. Over the past years there have been some opportunities to acquire new entities, but none of it materialized – we have not been greenlit. And now? We are on the verge of making a significant takeover in our market. And it is only the beginning!

SL: I'm not the one to assume that each of our acquisitions must be finalized. It is good to see the wide picture, though. By having an aggressive investor we are fighting for the big pool, scaling up new levels.

There are still many opportunities for development – first in Hungary and later on we want to try our chances in banking and financial products in other countries, such as Romania, Bulgaria and even Poland. It is a plan for the next 5–6 years. We feel that MCI believes in us and they give us a lot of freedom to make the right decisions.

Has MCI already left their permanent mark on Netrisk?

TS: Even at the stage of the company being sold by EI Tomek and the company have really stood out to us. They had the smartest questions and we knew that we were dealing with really smart people when it comes to expansion and digitalization of the sales channels. They asked if we wanted to work with them and the answer was simple.

SL: Right from the start we have adopted a common ambitious 100-day long plan with a lot of small changes whose task was to direct Netrisk on to the path of further growth, new sales channels, fintech technologies and M&A. That was our basis for entering the development stage of Netrisk 3.0. It was also crucial to us that the structure of the company ownership was adjusted to the highest Western standards – MCI allowed us to become shareholders of Netrisk alongside them, which only builds trust. We are in touch constantly, but we meet once every few months. Every day we feel that the role of the management is to reach the 3.0 destination. MCI provides us with capital, strategic support and belief in our good ideas. Let's start the trip then!

and optimisation of businesses in IT and telecommunication industries. He also worked at ABN Amro, Pantel, and BalaBit IT Security.

László and Tamás run **Netrisk** together and the history of the company goes back to 1994. In 2010 the Enterprise Investors fund made an investment in the company by buying it from the owners (the founder and a financial investor) for EUR 23 mln. Finally, in 2017, the company was taken over by MCI. The value of the transaction co-financed by Mezzanine Management and the National Development Bank (BGK) was EUR 56.5 mln.

Expansion is a function of quality and boldness

How to create an all-European company using smart money

Michal Drozd

When discussing Invia before MCI invested in it, Tomasz Czechowicz describes it as a company very assertive towards its investors. At the same time, its prospects were so good that the head of MCI paid a record-breaking traffic ticket for speeding as he was making his way to the first meeting with you in the Czech Republic. Have you heard that story?

I learn new details of it all the time. As for the ticket itself, it was definitely worth it if we take the subsequent return on investment recorded by MCI into account. If I had known back then just how much Tomasz wants to make that deal, I would have driven a much harder bargain because Invia was a company which we had been intending to sell for some time, realising its value and perspectives. The company had been profitable since 2005 and we had an idea for merging it with an entity such as Expedia. At the same time, we were aware of our weaknesses which made it impossible for us to boldly plan expansion onto new markets.

What was missing?

Reach and ways of establishing it. Put simply, when we were concluding our transaction with MCI in 2008, we were still too small and much too firmly grounded in the offline realities. We were a strong marketing company, more on the offline side, with a strong call centre, presenting what 350 tourist operators from the region had to offer. We stumbled over things such as several hundred ways of describing a double room provided to us by tourist operators. The market itself was chopped up into independent fragments lacking uniformity. We knew that without a plan for consolidation and creating an inter-regional entity we had no chance of appearing on the radar of serious investors. We were also aware of why our pairing with MCI was the reasonable thing to do and we saw smart money in the transaction. The fund had and still has a very good familiarity with and good skills connected with the e-commerce market, particularly in Poland – which was one of the places where we wanted to expand. Add to this the fact that the only major stock exchange in the region operated in Warsaw and IPO was an element inextricably linked with the transaction.

What were the main points of your plan for moving on from occupying a leading position in the Czech Republic to becoming a regional champion?

We had to be smart – also as far as our investors

Michal Drozd, then a student at the University of Economics in Prague, started working on the MojeDovolena.cz website. Its name was changed to Invia.cz in 2004 and it quickly developed in the Czech Republic, then to expand onto other markets. In 2008 MCI became the leading investor in Invia, gradually increasing its involvement in it to 80% and funding the company's further growth. All shares of Invia were purchased by Rockaway Capital in 2016 and it was evaluated at EUR 76 million.

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As part of the transaction, MCI's return on investment was almost 11 times its initial input and 3.5 times its secondary investment (i.e. subsequent purchase of a share package from other shareholders). As the fund sold its shares, other shareholders, including Michał Drozd, followed suit. Invia is still one of the largest company in the online travel agency sector in Europe.

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were concerned – and able to identify scenarios on the market and get ahead of them. We wanted to start with becoming a leader in the CEE region, then to add another element to it – DACH markets. One comprehensive offer package and good client service for even as many as a dozen or so countries – that was in our blood. Also in it, there was an awareness that our growing reach acquired thanks to aggressive marketing and quick takeovers of competitors must not leave out a crucial element – quality. In the long run, development and profits are not possible if your product or service as a whole simply is not good. MCI also understood that and supported us in it.

Is this why you are so attached to having an effective call centre?

Paradoxically, in a world which is becoming more and more digitized, human advice in choosing a tourist package is still important. At Invia, we started with developing and maintaining a comprehensive offer. We said to ourselves that we needed to gather all offers available on the market even if 5-6 operators formed 80–90 percent of our sales. A large number of offers drew our clients' attention and complemented our portfolio, tipping the balance in our favour and convincing our clients that there was no point in looking further than Invia because they would find nothing more outside of it. Our great call centre was the last piece of the puzzle – it made us stand out among others and was one of the most challenging elements to be handled in our line of business.

Why so?

As I said, to think about expansion, you first need to make sure that you are able to deliver top quality service on each of the markets. This being so, we had to tackle one issue – during the summer, the number of clients Invia had to serve was 4 times greater than outside of the tourist season. It meant that a large number of employees would have to be periodically hired for and dismissed from the call centre and they would need to be recruited and trained fast. When we had a smoothly operating mechanism for that, we knew that we can start investing in online marketing and promoting our brand because it would not be money down the drain.

How much did you depend on yourself and how much on your investor in your pursuit of the leading position?

In hindsight, I can say that choosing MCI was a good call in terms of partnership. As far as management was concerned, there was a Chinese wall between the fund and the team. However, we were after the same goal and we were all aware that we had to be fast, bold, and uncompromising if we wanted to ever mean anything on the market. Invia delivered business plans and our mechanism of trust and cooperation worked smoothly. We were comfortable because the investor, while being demanding, was not nervous. Obviously, sometimes we would fail to deliver on our goals for reasons such as changes of the market which were beyond our control. In a situation like that, the investor

Only last year, the group, now sporting companies on the Czech, Slovak, Hungarian, and Polish markets, as well as in countries of the DACH region, rendered services to over 3 million tourists and its target revenues for 2019 are EUR 2 billion. Michal Drozd had been the President of Invia for years until he became an advisor to its management board in 2018. Currently, he is an investor in several online companies.

One comprehensive offer package and good client service for even as many as a dozen or so countries – that was in our DNA. In the long run, development and profits are not possible if your product or service as a whole simply is not good.

would intensify contact with us and we would quickly nip any signs of panic or loss of trust on the market in the bud. Tomasz got personally involved in the game on a regular basis, holding strategy sessions for us during which he motivated us. Or maybe he challenged us a bit? I liked it because even though it was irritating at times, it helped us in the end. MCI has a lot of all-European companies in its portfolio and its leaders have a much broader perspective of many things than Invia's team.

Did the pressure connected with MCI exiting from the investment make you nervous?

Tomasz and his team have an enterprising approach and view things from the perspective of a company manager. This is why they clearly communicated to me that they believe the company should be managed and handled in such way as if MCI's exit from the investment were to take place within several calendar quarters even if plans for it were actually different. Once, I asked him: "Tomek, what should I focus on more when preparing the company for a transaction – revenues or profitability?"

And what did he say?

His reply, in the style of MCI, perfectly consistent with the MCI.TechVentures fund's approach to companies at the development / late VC stage, like ours, was: "Keep an eye on both." And then he negotiated a price for himself, and for us as well, which was really decent.

Excellence in the digital world? It's not an experiment

How to strive towards perfection in a digital world

Luis Amaral

When you invested in Frisco, were there more people congratulating or saying that you were out of your mind?

There were many people on both sides. The most important thing is that we – the project leaders and Eurocash bosses, as well as our partners from MCI decided to go full-on. Nevertheless, I am still aware that for private equity it is an investment leading to an exit. But for Eurocash, it's not a project for a few years but for generations. We believe that excellence and perfection can drive business in the digital world too.

How long did it take for a cooperation plan to hatch for Eurocash and MCI?

As far as I remember, I met Tomasz Czechowicz at one of technology conferences. We quickly connect-

Luis Amaral – since 2003 he has served as CEO of the Eurocash Group, the largest distributor of food and other fast moving consumer goods in Poland, which is an investor in Frisco.pl, an e-grocery business with MCI as a co-investor. Earlier in his career, he occupied managerial positions at Unilever Portugal and the European structures of Jeronimo Martins. Between 1995 and 1999 he was the General Director of Jeronimo Martins in Poland, and then became ›

ed, and agreed that digital excellence could also be built in the FMCG sector and in the sale of such products via the Internet. We both knew that every detail had to be perfected there, and only managers with vision but also with experience in both the FMCG and e-commerce would be able to do it. Hence our union seemed only natural, resulting in many synergies.

Many in Poland have tried to establish an ideal supermarket in the digital world and, as for now, they are all counting their losses. Why Frisco is supposed to be different?

Of course, we know that everyone loses money here, and that it is not a piece of cake to earn a profit on such a project. However, we have a reason to believe that together with MCI and Frisco managers we are developing an optimal model that will ensure sustainable profitability. Synergies are very strong: we give our experience, knowledge, and networking in the food and FMCG segment, whereas MCI adds its extensive experience from e-commerce, omnichannel models and digitisation of many different sectors and industries. For me, the presence of MCI on board meant that at the time of investment the risk was reduced to a minimum.

Frisco is still not making money. How is it going to be profitable?

We are far from anxiety. We know that building digital excellence is a dynamic process rather than a total revolution. And the changes in Frisco were very fast anyway. When at the end of 2014 Eurocash invested in Frisco, the company was really going nowhere. It drifted. Still, I was of the opinion that it had potential for a second life. The core of the business, and we are completely clear about it, are consumers who want to include groceries in their online shopping, so we can make a profit on satisfying this need. And I consider every story about how the costs of last mile delivery or complicated warehouse issues are killing profits to be empty talk. Consumer needs are the top priority. Of course, we were and still are aware of the challenges. That is why, we have opted for such a uniquely strong partnership with private equity. With MCI, we can implement deep, quick and informed changes. We respect each other and we liberally draw on our experiences. Results? Today, Frisco is the best service of this type in Poland. At least in Poland.

Today, Frisco does not look much like a business it was at the pre-transaction stage?

Building a digital champion with the PE fund at our side means that we develop a naturally aggressive, offensive company, in which new managers enjoy a very strong support from the supervisory board and investors. We are often like partners to them, as we devote a lot of our time to all stakeholders. A whole lot of things have changed over that time: better managers joined us, we developed more sophisticated pricing strategies, and, last but not least, we learnt why and what people buy at what

a Member of the Executive Committee of Jeronimo Martins Holding in Portugal. In the following years he was a partner of Antfactory investment fund, expanding the company's geographic reach to markets in Brazil, Mexico and Argentina. Following his return to Poland, he initiated the management buyout of Eurocash from the then owner – Jeronimo Martins. He is a member of the supervisory Board of Frisco.pl

The road to excellence requires not only the precision of a surgeon in the implementation of new solutions but also a grain of vision, which will put a project in the yellow jersey of the leader – the leader that will break away from the pack of mediocre cyclists.

time and price. Frisco has stopped thinking that its rivals are only online stores. At the moment, every store, including offline outlets, is our competitor. We know exactly why Poles want to shop in each of the offline chains, and we make these attractors part of Frisco's proposal. That is why the company has undergone a fundamental change in terms of quality and speed of service: now we are the best in Warsaw. No product that we sell has found itself on our virtual shelf by accident, but it targets the needs of specific customer groups, thus attracting them to the store. For instance, including lobsters in Frisco's offer is not our whim but a result of our "cold head" approach. Jokingly, I say that even my demanding daughter, a regular customer of Frisco, is delighted with the quality. And this is no small achievement.

What will digital excellence mean in e-grocery in the years to come? Maybe, following the Amazon's formula, it will also grow an offline leg?

Oh no! We will not let anybody to talk us into this. Amazon is in a completely different place, has plenty of cash for experiments, and can burn money with impunity for years. We are completely honest with ourselves: in e-grocery we are not scientists or explorers. We will not blindly test the palette of novelties, but we will rather follow well-trodden paths and lean on efficient technologies as our walking stick. This is our recipe for excellence. What is more, we do not want to take the market over. We are just building our own excellence in an organic way.

Is Warsaw not too tight a market for business targeting the title of the e-commerce champion?

Of course, we look beyond the capital city, to other cities and regions, including the Upper Silesian metropolitan area. Together with Tomek Czechowicz and the MCI team, we have a lot of visions and ideas. We try to select and nurse the best ones. One of them is about to debut in Frisco, and it will be the talk of the town for sure, as it will meet the needs of many vendors and customers in Poland. If this plan is successful, it will bring Frisco to a wholly new level. Let's not kid ourselves. The road to excellence requires not only the precision of a surgeon in the implementation of new solutions but also a grain of vision, which will put a project in the yellow jersey of the leader – the leader that will break away from the pack of mediocre cyclists.

Successful VC and PE in Poland? Not without entrepreneurship, invention, and perseverance

How to develop a fund long-term on a difficult market

Barbara Nowakowska

What was the PE market in Poland like more than two decades ago, when MCI joined it? Was it like an unused field or a busy anthill?

Back when MCI was created, the private equity/ venture capital market had existed in Poland for almost 10 years. At its peak in 2000, investments worth more than PLN 800 million in 92 companies were registered. Since the beginning of the 1990s, those funds had invested around PLN 6.5 billion in 350 companies. Among entities actively operating on the market were Enterprise Investors, Innova Capital, Advent, Mid Europa Partners, 3TS, Riverside, Renaissance and – though under different business names – V4C, Krokus, and Forevest Capital which, by the way, are still active in Poland today. They were all based on foreign capital.

Had there been any major successful investment operations back then?

Our activity was noticed by others in the region. In 2004, "Central and Eastern Europe Success Stories," a publication of EVCA (European Venture Capital Association) listed 9 investments made by Polish funds in the 1990s. Those were Computerland, Lucas, Polfa Kutno, Stomil Sanok, and Eldorado from the portfolio of Enterprise Investors, @Entertainment and Euronet – investments of Advent and Innova, HTL – a successful Polish project of Renaissance, and, last but not least, Town&City of Innova. Amounts invested in those companies ranged from USD 3 million (HTL) to as much as USD 66 million in the case of @Entertainment. Managers demonstrated some astonishing returns on investment and dashingly gathered money for subsequent funds.

Were smaller investments also profitable?

There was an unoccupied niche on the market here because relatively large investments – in excess of USD 3 million – were predominant. There was an obvious shortage on the market of entities which would invest less than USD 1 million. In the 1990s, there was only a handful of such funds, financed

Barbara Nowakowska has been managing the Polish private equity and Venture Capital Association (PSIK) for over a dozen years now, fulfilling its statutory objectives which include providing education, supporting the development of the private equity/ venture capital sector in Poland, and promoting professional standards.

using public money. Most of those had also depleted their investment money by the end of the decade. Private funds, which tended to invest less money back then, were few and far between: BMP Polska (invested in Bankier and K2 Internet), e-Katalyst (Pracuj Group), and Environmental Investment Partners (Praterm). Larger funds rejected a great number of interesting investment proposals only because they were on a scale too small for them. MCI tried to take over that niche, targeting small companies and companies focusing on digital technologies.

She is a member of the managing board of the European Institute of Innovation and Technology (EIT). She represented Poland as an expert in the field of private equity/venture capital in the European Commission. She first entered the private equity business in 1993 when she started work for Enterprise Investors

Why were there no macro-economic and public mechanisms for that niche?

Initially, most money at MCI's disposal in its leading funds was from investors who were foreign institutions. For them, it was natural to focus on major funds. Around the year 2000, there were no national programmes for supporting VC funds. The first one of them – and for only PLN 65 million – was founded by the Polish Agency for Enterprise Development (PARP) in 2004. This shows exactly how difficult the environment in which the project of Tomasz Czechowicz had to exist were. A major change occurred in 2007 when the National Capital Fund (KFK) started making its investments. KFK is an investor in, among other projects, two start-up funds associated with MCI. Today, new funds can count on much more support from the state, largely thanks to projects carried out by the Polish Development Fund Group

(PFR). Unfortunately, there are still few private institutions willing to invest. Perhaps they will start appearing soon thanks to initiatives such as Employee Equity Programme. Investment instruments are also missing. Neither FIZAN, managed by TFI, nor ASI meet many conditions typically associated with a private equity or venture capital fund – and it is not easy to develop a market if there are no relevant investment instruments.

Why then – against all odds, it would seem – entities such as MCI did emerge and manage and perform so well? What is it that makes them stand out among others of their kind, what is that special and elusive trait of theirs?

It is all about exceptional entrepreneurship and perseverance. Those qualities are needed when there are still no proper investment instruments on the market and when there are no groups of investors with enough capital to sponsor long-term investments (such groups being typical for private equity markets). Tomasz and his team clearly demonstrated those two abilities. Many times, MCI has managed to convince a Polish investor to make an investment connected with a high level of risk thanks to successful exits, perseverance, and coming up with creative solutions. Virtually everything had to be created from scratch, even the legal structure of the fund. In more developed countries, there are legal solutions regarding private equity investments which simply do not exist in Poland.

Exceptional entrepreneurship and perseverance. Those qualities are needed when there are still no proper investment instruments on the market and when there are no groups of investors with enough capital to sponsor long-term investments.

Is it possible at all to generate larger than average long-term profits in an environment like that?

MCI has shown that it is. Even so, the capital it acquires is markedly more expensive than for a fund using sources of financing typical for private equity. What is more, that fund is now almost entirely formed by Polish capital. There are few similar solutions nowadays and it is the only one of its kind on such a scale. If such a model of operation is to be sustainable, one needs to generate very high return on investments in order to compensate for high costs of acquiring capital and ensure sufficient profits for investors. MCI scans the market for technological companies requiring capital for international development and expansion. Such investments are difficult as they require an in-depth knowledge about both technologies and market tendencies. MCI has managed to develop competence which now makes it possible for it to achieve a high return on investments.

Is the CEE region ready for the 100 percent private equity?

How to direct the activity of funds in a region

Jacek Chwedoruk

Reviewing statistical data, one may draw a conclusion that Poland and its region are no paradise for local private equities.

The CEE region is a quite small and flat, as far as a volume and quantity of the investments is not changing in the recent years. This, however, does not mean that all private equity funds operating in that region are doomed to fail. The truth is that such activity requires a special type of flexibility and adjusting one's objectives and strategy to local characteristic features. The market in Poland is special because, among other things, there are no funds-investors operating at different levels like VC, family offices, small and medium PE funds who purchase developing companies from one another. This is further modified by the stock exchange becoming weaker and weaker and by the uncertain future of IPO. Put simply, there is no ecosystem for private equity activities which would function smoothly and have a momentum of its own.

Can it be created and would it be worth our while?

I appreciate energy that MCI still puts into creating some segments on the market – like tech companies or the VCs. MCI wants to and has to contribute to the creation of such a local ecosystem, having its own future in mind. It is an investment in the success of future funds. Other investors and organisations should share that attitude because it is supported by only a small number of individuals and companies now. The stronger they themselves and the global relations between them become, the greater the chance that innovative companies from Poland or the region at large will look for investors locally instead of contacting the Silicon Valley straightaway. They would go for the former option if they knew that the local ecosystem would be able to sustain their functioning – in the smart money formula – for at least a dozen or so calendar quarters.

So, exceptional technological companies worth investing in will appear even on a weak market?

Yes – because there is no shortage of talent in the region. MCI itself managed to find companies such as Dotpay and made a great deal by taking over a company which had no clear concept for itself, steering it in the right direction, and waiting for a time when such payments become a serious topic for discussion in the financial business. It managed to attract investors willing to provide funding on very good terms,

Jacek Chwedoruk, the managing director of Rothschild & Co in charge of the Central and Eastern Europe region. He has over 27 years of experience in investment banking in Poland and the CEE region, acquired as part of numerous privatisation processes, mergers and takeovers, and transactions on the financial market. He is an expert in the financial institutions sector. In the early 90's, in the Ministry of Finances and then – as a Department Manager at the

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taking the P/EBITDA ratio. Netrisk is likely a project expected to bring similar results. 15–20 years ago some investors on the market expected that the future of the Polish technological market would be brighter than it has turned out to be, expecting that Poland and other countries in its region would give the world fast-developing start-ups of their own accord. However, we can see today that the critical point after which this would start happening has not been reached – also in terms of investor interests.

Is it then a good idea to focus on particular markets as far as investing in technologies is concerned?

Due to their very nature, tech companies are not limited by geographical considerations. They consider the international potential of all markets they intend to conquer and the universally appealing features of their product or service. It is in that light that they choose experienced investors for themselves. On the other hand, one of the investment-related assumptions of MCI is that there are certain benefits and advantages hidden away in local technological hubs, related to things like easy access to talented and skilled people or lower costs of maintaining a company's infrastructure. This is why Netrisk, a Hungarian company in MCI's portfolio, is to use such a springboard to enter another large market. After all, distribution networks using new technologies have no limits. This heralds a new investment principle for companies from the region in question: yes, it is possible to create a global or at least an all-European company here, using local re-

Ministry of Privatisation – he took part in creating the legal basis for privatisation processes (including IPOs of so-called "first five"). He coordinated the denationalization of first Polish companies. He is a founding member of the Polish Institute of Directors and a member of the Polish Business Roundtable.

One of the investment-related assumptions of MCI is that there are certain benefits and advantages hidden away in technological hubs in CEE, related to things like easy access to talented and skilled people or lower costs of maintaining a company's infrastructure.

sources, but one should avoid establishing too strong ties with Warsaw, Prague, or Budapest while doing so.

Why?

Because with the investment horizon being as narrow as it is, participants of the market such as MCI find few business partners for making and exiting from investments. When a company from a PE portfolio is worth USD 50 million and put up for sale, everyone knows that several dozen millions of USD should be added to that price to develop the company further. This is more than local funds can afford to pay. From this point of view, being the only fund of one's class in the region or being one of a mere handful of them does not help. This is why MCI has developed its own solution for development and operation in the region.

What does this solution involve?

It involves very close cooperation with founders and managers on shaping the pattern of development for portfolio companies. It also assumes a very cautious attitude to taking risks due to which some opportunities, such as CD Project, are missed out on. On the other hand, they do not need to bear risks connected with sink-or-swim investments. Another part of the solution is formed by the flexibility and proficiency of the entire team and hitting the right spots globally by means of taking part in large international projects. Such an approach was exemplified by a transaction concluded with iZettle where MCI, holding only a small part of its shares, was able to use the investment very actively to develop its know-how, gather the relevant experience, and go a step further as far as relations with the fintech ecosystem are concerned.

Is this a seed which will grow into a strong inter-regional fund?

MCI has developed some good habits which make it easy for it to accomplish international objectives. It can learn fast and it keeps key directors of its team who are becoming Tomasz Czechowicz's partners. A good fund should also be able to step up its pace in some sectors if need be – MCI is great at identifying global tendencies related to e-commerce and payments. They should know the right time to enter an investment and exit from it. Would you like an example of that? 5 years ago Tomasz and his team were looking for an e-commerce investment – this was at a time when Amazon's business was far away from Europe and it was by no means all that clear that e-commerce would play an important part in economy. Obviously, it was problematic back then that all companies in the region were relatively small and their choices were few and far between. Today, if such companies have the support of a fund, they may be able to go global, which will stir the local ecosystem into motion by drawing the attention of such major players as Google Ventures or Silverlake. If I were to pinpoint main factors contributing to the development of private equity, I would, in addition to recommending foreign investors or local systemic and legal solutions, suggest looking for specialized and innovative entities such as MCI.

Tomasz Czechowicz in 8 flashes

How to perceive your investor as a human

Uli Kottmann

This book is full of talk about money, transactions, exchange of experiences, specialist opinions, forecasts, and advice from top-notch experts. I would like to approach things from a different perspective – a more personal one. Why am I even able to do that? Because, as far as I can tell, I am most likely the last and only professionally active business partner of Tomasz Czechowicz who has been with him even before the creation of MCI. I was there to witness his greatest achievements and most crushing failures, in times of breakthroughs, major changes, and critical decisions. Surely, almost 25 years of observations is enough to recount some less known stories and points related to Tomasz. Needless to say that there is a great deal of mutual respect between the two of us.

MCI 20TH ANNIVERSARY

1. Before we met, I had worked in Munich for Compaq for many years and I had established a lot of relations with International channel partners. In 1996, I decided to become my own boss and founded a consulting company operating in the IT industry. I was doing well, I had good clients and Compaq was to become my greatest business partner soon. Before that came to pass, however, in the autumn of 1996, Tomasz Czechowicz came up to me after my presentation at a conference in Budapest. We had a short talk and he invited me to Wrocław where the registered office of JTT was at the time. Tomasz was a leader and a shareholder there and was doing exceedingly well as far as selling computers is concerned. He was hot on Optimus's heels. Tomasz was looking for a professional adviser to help him with organisational matters, controlling and company management. The pay he proposed was not too high but we took to each other so I would every now and again spend a couple of days in a mediocre hotel in Wrocław to do what I was paid for. Some time later, he offered me a seat on the supervisory board of JTT. Up until then, such opportunities were only offered to people matching the "family & friends only" standard. This made it possible for me to see the tragic fate that had befallen JTT from the inside: it was torn apart not only by the tax office but also by internal conflicts. Hardly anybody there was loyal to Tomasz, yet there were many more than eager to go on a trip at his expense. Tomasz was well in his right to be disappointed with them.

Ever since the late 1990s, **Uli Kottmann**, has been associated with investments of MCI, having been a member of the supervisory board of JTT, founder and general manager of Process4 S.A. which became MCI's first International exit to a Frankfurt listed company, as well as 10 years in the Supervisory Board of ABC Data out of which he served almost 8 years as its President. He has more than 30 years of experience in IT.

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Between 1986 and 1996, he occupied several managerial positions at Compaq. In the 1990s, he operated in the Central and Eastern Europe as a manager. After the year 2000, he, together with Process4E S.A. (Update CRM since 2005), performed various projects on the Polish market. He also provided advice and operating support as part of many MCI investments, including Index Bilgisayar, a Turkish distributor.

2. Back in its heyday, JTT sought profitable distribution contracts as well as production contracts. A distribution agreement with Compaq, by that time the # 1 PC company in the world, became possible. The final decision was to be taken after a presentation in Warsaw in the presence of old hands from the American headquarters. That was supposed to be a tour de force by JTT – we dedicated many meetings in Wrocław to perfecting the presentation, mastering every aspect of our behaviour, and polishing even the tiniest of details. We prepared like our lives depended on it. On the day of the presentation we left Wrocław very early in the morning to make it to Warsaw on time and be there by 1 p.m. Tomasz drove. He was late by a couple of minutes in collecting myself and two other managers. No sooner had I buckled up than I realised that I was in one car with a speed demon. I was surprised when, half an hour later on some forest road, the car's engine suddenly started spurting and stuttering, then to stop completely. It did not break down, not at all – Tomasz just forgot to tank up. And there we were – 4 guys, all suited up, with an empty tank in the middle of a wood. In the end, we managed to get fuel but we were short on time by then. This was just what Tomasz needed and liked. The way he drove the car had as much to do with travelling by road as it had with flying. We reached Warsaw 10 minutes before time. That was all Tomasz – he could be very chaotic, disorganised, and forgetful at times. When I managed Process4E, a company in which MCI invested, we hosted

a desk for Tomasz in our office. I always knew when he had just left his office because my assistant would get a call for help several minutes afterwards as he would always forget his car keys, his phone charger, or his computer. It made him "human" and at times we had great fun with it.

3. However, chaos was limited to tangible details of day-to-day life. There is no chaos when he talks business and investments. Every time after a supervisory board session or a working meeting, we could count on Tomasz's brilliant summary of all that was discussed in bullet points. I know that it is still so. What is striking is that he prepared those summaries while doing something else at the same time. He showed some excellent planning abilities also after JTT went under. He vanished from the public eye for several months, coping with his failure while constructing a new plan for himself. He took the best books and case studies with him and was not heard from for a while. When he reappeared, it was with a detailed, excellent, and truly refreshing idea for MCI and a business in the VC sector.

4. In the summer of 1997, I travelled to Wrocław even before the Polish flood of the century was at its worst. There was not a soul to be seen at JTT – everyone was busy by the Oder, reinforcing the banks of the overflowing river with sandbags. Tomasz still has a soft spot for Wrocław but he is

People who were supposed to remain business partners of Tomasz for life were many. So why has their number decreased so much over the years?

also a reasonable man so his mind has been in and with Warsaw for a long time.

5. People who were supposed to remain business partners of Tomasz for life were many. So why has their number decreased so much over the years? My business relations with him have remained good thanks to one simple trick – I never tried to be too close with him. Even though he often invited me to his birthday parties or other events at his place, I think I accepted such an invitation just once, if ever. Around him, there have always been crowds of people hoping to use him as a springboard for getting ahead in their professional life. I preferred to keep myself in check and just deliver the results one could expect from me. I never tried to pass for a smarter person than I actually was and I just focused on what I could do well. And I never let him down in critical moments. Yet we are not necessarily all the time on the same wavelength and I was not afraid to say "no" to him. That was a solid basis for a detached and business-like relation with him, trustful and fruitful for both of us.

6. Empathy? There is no such thing as empathy in business according to Tomasz. I think that when faced with major professional difficulties at one point in the middle of the JTT crisis Tomasz may have come to a conclusion that people wanted to take advantage of him too often. He started perceiving empathy as weakness and made a con-

scious decision to stop relying so much on that important part of himself, even though empathy can be put to good use in business and can help achieve worthy goals. The way things are, interesting situations sometimes occur. For example: Erol Bilecik, a high-profile entrepreneur in Istanbul and the creator of the Turkish Index in which MCI invested, shares interests with Tomasz but is seldom on the same wavelength as him. Erol is traditionally rooted and pays attention to soft factors and emotions while Tomasz concerns himself with performance, results and bold visions. It is like they speak different languages. The principles the latter lives by sometimes make him say devastating things to people working with him – he clearly lets them know that soft leadership skills are not his forte. I myself believe that money simply makes one rich but to become truly great one needs to put in a lot of effort and without empathy and smart soft skills it just will not work.

7. Tomasz is by no means a soulless automaton focused on results. Not at all. Once, we were together in a taxi on a long drive in Istanbul. He suddenly opened up to me, telling me about the price he had to pay for being successful in business and about other things. It was one of those intensely personal moments. There was another time like that, during the funeral of my wife, who passed away suddenly and before her time. The ceremony took place in a village in Bavaria. I was greatly surprised

to see Tomasz at the funeral, accompanied by two members of the management board of ABC Data. I had no right to expect him there and yet he came. I will always appreciate this great gesture!

8. Confusion/Disruption – it is a state which Tomasz can cause in almost any group of people. He excels at identifying great deals thanks to being roughly 5 years ahead of everyone else in predicting market development and tendencies. He sees opportunities and breakthroughs others fail to notice. Due to this, when he comes up with an innovative idea, the initial reaction is usually confusion. Profits for everyone involved come later.

Further polarization in private equity investments

What is the dynamics behind investment fund capital

Mounir Guen

Every day you meet with world leading institutional investors who raise capital for the private equity market. Where is the capital headed in the market? Is the CEE region gaining any importance?

In order to understand the nature of the market, first we must look at the origin of the capital, which is mainly US dollar based. Then we consider the moods and predictions of the investors who currently surmise that, the bull market is slowly drawing to a close on a global scale. As a result, everyone is looking for a haven and emphasize investments with more predictable, familiar markets. So, they are USA in 60–70%, Western Europe 20–30%, 5–10% goes to China and 0–3% is allocated to the so-called "the rest of the world." However, for 30% of the investors the portions between China and Western Europe are reversed.

Mounir Guen is the CEO of MVision, private equity advisers firm which he founded in 2001. He is a veteran fundraising specialist, advisor and manager, with 30 years of experience in the industry during which he has worked on over 300 General Partnership funds. He has led MVision to the point where it is now one of the leading private equity capital raising firms in the world.

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Judging by the statistics, it turns out that Poland, a member of the EU, is not in... Europe?

The CEE region, along with Japan and other countries, fits into the 0–3% slot. I have to admit that – notwithstanding the historical circumstances – the place of Poland and other Central EU states is somewhat of a mystery to me. After all, the local companies supported with private equity capital later are sold or work as European besides the CEE local economies are in great condition – there is no shortage of arguments which justify why investors are so reserved about CEE.

The first argument seems paradoxical, but also brutally honest: PE is not highly developed in CEE, which is why it does not attract attention from major players.

The market is prone to consolidation, mega-funds are created attracting more and more capital, which in turn allows them to provide large commitments from investors well over US 100 million at the same time being sensitive to not being more then 10% of a fund as a guideline. The quantum that investors have need larger funds to absorb the quantity. Polarization means that with shallower private markets which do not offer a variety of general partners with potential for rapid growth and will get sidelined. The secondary market is yet another point – in the USA which is represented by over four thousand private equity companies and such an ecosystem is a self-propelling machine – they all can buy companies from one other. If we look at the average life cycle of an investment company, we can see three GP owners over a 12-year cycle. Optimists in CEE are more likely to say that it is the start of a cycle for their companies. In China the situation is yet again different – the market ends with IPO to exit usually.

Why is then Japan grouped together with CEE?

What makes Japan stand out is their isolation. In Japan and – let's say, in Southern Korea – there are a few GPs in numbers, as these markets are still nascent in PE as a percent of GDP. The critical element is that these GPs have strong local investor support at this time.

Can CEE strive to be self-sufficient?

There are some indications which say it is probable, overtime it does need special support from local investors, from regulators and from the state to develop the PE programs, presence, performance and investors. The path for GPs leading to self-sufficiency is, for example, the entrepreneurial trait, where experienced businesspeople can use the advantages of growing economies and their thriving companies. Tomasz and MCI are a good example of where vision, and drive result in a mixture which provides good returns, growing trust of the

In 2011, he was selected by private equity International as one of the industry's 100 most influential personalities of the decade. Previously Mounir spent 13 years at Merrill Lynch where he was a Managing Director and was responsible for building up the international non-US placement business. He established an innovative proactive origination program for Europe and extended the concept to a global model. Prior to that, he trained at JP Morgan whilst working at the Saudi International Bank.

Investors need larger funds to absorb their huge tickets. Polarization means that with shallower private markets which do not offer a variety of general partners with potential for rapid growth and will get sidelined.

investors and impact. After all, if you visit Brazil, Mexico or Australia, you can meet a local “Tomasz” or equivalent family groups there, ready to invite institutional capital with investment successes under their belt.

In the long run, will the private equity model follow the upward trend, also in the geographic segment which constitutes 0–3% of the wallet?

We may allow ourselves a dose of optimism. There is a huge potential for growing economies and companies in CEE, while the current PE penetration of the M&A market is lower than 1%. Additional openness to these markets may come as a result of time. Funds that are technology driven as their focus may see new opportunities open to them by investor interests.

MCI 3.0? Digital DNA, a strong team and all-European investments

How to learn to swim in the days of the tsunami

Tomasz Czechowicz – the founder and President of MCI.

Before you started investing in promising tech companies, you created several such companies yourself. Were you a start-upper before it became popular?

Yes, I was a start-upper in the 1980s. I started this when I was a fifteen-year-old high school boy living in a block of flats in Legnica. At that time, I found computers and programming fascinating. Back then, close to the collapse of the communist regime in Poland, Commodore and Atari were state-of-the--art technology. I caught that bug from my dad who was an academic working at German and Polish universities. I began programming and tinkering with computer hardware which few people in the region could do at the time. Because of that, I was able to negotiate really good rates for programming tasks – I was paid roughly the value of the Fiat 126 for my first assignment. That, however, was not enough for me. I calculated what I could buy, build, and sell. I knew prices at computer markets and I contacted suppliers of computer parts from other countries of the Eastern Bloc. I bought such products and leased a table at the Wrocław computer market from one young man and started making money by selling Amiga and Commodore accessories I myself crafted. The idea behind my first start-up company – though that name was yet to be coined – consisted of two elements. Parts cost me USD 15 and I could sell a finished drive for USD 100–150. Also, the person from whom I leased the table back then is now the president of a major bank – Zbigniew Jagiełło from PKO BP.

What was the name of your first business?

It did not have any. When I went to the relevant office, a lady working there told me that, according to the law, I could not register a company being only 16. She told me to come back in two years' time. And I thought naively that you become an entrepreneur when you start doing business and not when you attain a certain age. Anyway, I did not have plans to stay a businessman for long. I went on to study electronics in Wrocław. I wanted to be an engineer, learning about the more scientific side of technology, and I had no intention of assigning too much time to commercial activity.

But then, while still a student, together with two partners, you founded JTT whose star was to shine bright on the Polish electronics market.

Once again, reality came up with a surprise for me – I found my studies tedious and I had too much time on my hands so I and a couple of friends started ordering small batches of computers from Germany. We achieved a profit margin of one hundred percent as demand grew rapidly soon after the transformation of the country following the collapse of communism. Order volumes increased and we quickly outdid our competition. There was no turning back from that and we created JTT. At first, our German sellers provided us with our initial working capital – in hard currency – by means of granting us a merchant credit. They made a good call assessing the level of risk associated with this and we were able to flood the Polish market with computers thanks to the trust they put in us without having to worry about inflation.

The company was taking the market by storm, hiring hundreds and hundreds of employees and acquiring more and more marketing renown and publicity. And then, close to the end of the 1990s, you suddenly distanced yourself from JTT and vanished from view for several months. Was that burnout syndrome?

I did not feel burnt-out. Things just came to a natural end. My parting with my JTT partners is a long story which is not particularly interesting any more. We went our separate ways, each one of us with a different vision for further business development. It turned out that I had been lucky – soon afterwards, JTT faced some major difficulties due to unjustified actions of tax authorities. I returned to the game several months later with the best business plan I have ever come up with, which I continue developing to this day. It was 80 pages in Power Point, everything broken down almost into minutes and ready for implementation. It was the intellectual seed which grew into MCI Management, operating according to the venture capital formula. All things considered, I am good at planning.

You had a plan like that and yet your first investment of the VC type turned out to have been an utter failure.

That is true. I lost USD 1 million on a project of a cash register by the legendary Professor Karpiński, a computer genius. The idea fell through and it was the first serious blunder I made. I had invested according to a formula somewhat similar to VC back when I was in JTT but I did not have the time for it at that time as JTT required focusing on its business on a daily basis. We sold around 1 million computers and transformed an analogue Poland into a digital one.

Were you not discouraged by such a failure at the very onset?

No, the plan was sound. I quickly realised that, in a way, I needed a defeat like that. It was like a crash course in investing and risk assessment. That failed investment made me think and adjust my attitude which might have been too aggressive. It was a special time in my life – I graduated from a good MBA course, I was full of knowledge and ideas, and my horizon was full of development perspectives. I was aware of how important a component of computers software was becoming and I witnessed the birth of the Internet. I decided to combine those elements: to wrap my experience and competence up in the VC formula. One failure was not enough to put me off that path.

A year and a half later MCI made its debut on the Warsaw stock exchange. Your business partners from that period say that they were sure you had five gears only and you switched to a sixth one. And then you went on to activate a turbo mode and you have been operating in that mode ever since.

I quickly realised that the VC – and now private equity – industry is for people who work intensively and effectively. Such are the standards here and if you fail to adjust, you will be out of the game soon enough. This is why I set a very dynamic pace for the beginnings of MCI. Its quick appearance on the stock exchange helped me to finalise its formative stage. After that, we could, step by step, move on to

In private equity line of business, if you manage risk well then sometimes as part of the process of risk management you miss out on very good deals.

gradually larger and more profitable investments, a dozen or so of which are mentioned in this book. ABC Data, MALL.CZ, Invia, iZettle, Dotpay, or Gett – those investments are what we used and still use to shape our history, moving from VC to private equity and buyout transactions. On our way to where we are today there were, obviously, some ups and downs and difficult investments from the period of the Internet bubble. However, we managed to stay afloat after each of the two macro-economic crises while the tsunami swept away and brought under other funds which seemed very strong. Numbers speak in our favour – our size increases ten times every decade. Bear in mind the fact that there are only 4 PE funds operating in Poland, the lowest number in our 20 years on the market. Functioning on such a difficult and restrictive market, we are doing well and we managed to accumulate PLN 2.5 billion of capital in our model.

Could you have grown in size 20 times if you had decided to invest in CD Projekt all those years ago?

This may sound strange but I have no regrets connected with CD Projekt. Objectively speaking, that company is clearly an excellent one and it managed to accumulate astounding goodwill over a short period of time. However, back then it would simply have been completely out of character for me to take a different decision: CD Projekt was simply not for us. It was connected with too much “win or lose” risk at that time. In our line of business, if you manage risk well then sometimes as part of the process of risk management you miss out on good deals like that. CD Projekt was not the kind of risk MCI would have been able to absorb.

You keep saying that you do not like risk, that "it is an element of chaos which bothers me. I try to tame it in the course of my everyday work." How goes that taming after 20 years of investment activity?

Dry facts and figures say that it is going pretty well, even though there have been many failed transactions, including ones which we did not manage to see through. Take eObuwie as an example – it was a valuable lesson in flexibility for us and we learnt that we should exercise more than average amounts of it sometimes. As far as taming risk is concerned, it is not so much using a calculator that helps me but... jogging and climbing. When I jog, I have a chance to put my thoughts in order and find solutions to business conundrums. I can even jot down my ideas as I trot. And mountains? They teach you to assess risk. Literal risk, clear-headedly and on the spot. In the mountains, you need to stay focused on climbing all the time.

And do you really suffer from vertigo?

Yes. In the mountains, I am humble and I transfer that humility to MCI's team and to the nature of the fund. When investing, you need to be able to overcome your fear while at the same time retaining a sense of humility instead of rushing headlong into a situation which could be connected with a potential for a very costly failure.

And yet you would not be yourself if you did not see further high peaks to be conquered by MCI. Where do you see yourself and the company after the third decade, what will MCI 3.0 be like?

I see us – MCI – at a much higher ground than we occupy now. This is by no means just a projection of my aspirations, it is a reflection of the potential we managed to create within MCI. Today, MCI is in the plural. We are a strong team, a gathering of people, some mature leaders – like a well-coordinated orchestra where I am just one of the many members and not the most important one. It is a team necessary for even attempting to conquer high peaks and to minimise the risk of a failure. And as to where we are headed? We aim at expanding in Europe and that is our focus. Creating an all-European fund with a digital DNA – that would be something. To have a second office in, for example, Berlin in 10–15 years. This could be done: a decade ago, we felt more at home in Wrocław than in Warsaw and our tickets oscillated around EUR 1 million. Now we embarked on a trip to reach tickets worth around EUR 25 million, having now achieved the level of EUR 5 million. This would mean being able to report our readiness to take part in really big projects and to stand out among other investors participating in them.

Gett is the one of them?

Our progress on that road could, in a way, be measured using IPO Gett where we are one of the two leading investors and where we collaborate with the company very actively. Conquering new high peaks means is about more than just looking for prospective unicorns, it is also, if not more so, about buy-out which will bring us profits around 10 times the capital invested. One thing is certain for me: there is no middle way for MCI. Either we will become a respected, European, and digital private equity or we will just watch the backs of other players operating on that level from Warsaw.

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