



## **A Position Paper on investing in the Hungarian Paint Retail Market**

### **Capstone Public Project Summary**

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## Introduction

The aim of this document is to summarize the process and key outcomes of my Capstone Project completed to earn my Master's degree in Finance at the Central European University. Due to confidentiality reasons, the Project Sponsor will be referred to as "the client". The client organization is engaged in private equity activities in the Central Eastern European region. The client's initial need and the project's objective is to seek, analyse and identify investment opportunities in Hungary.

## Project objectives

The purpose of the project is to support the client in identifying and analysing possible investment opportunities in the selected industry. The industry has been selected by the client based on previous assumptions regarding the characteristics of the market. The main tasks included the creation of a brief overview of the industry with an emphasis on the CEE and especially on the Hungarian market and an assessment of the exit possibilities of investments made in the chosen market. The client requested an analysis on how these investments would behave in an economic recession as well, given the raising uncertainty caused by the Covid-19 pandemic. The aim of the project is to deliver a position paper on investing in the selected market and reaching a conclusion whether the conditions are favourable enough to pursue finding investment targets in the sector.

## Approaching the problem

The main parts of the project were to research information using public and private databases, conduct analyses according to the client's requests and present the findings in a professional manner. The client highlighted three areas for investigation and based on the findings of the respective segment, the client evaluated whether I should further the analysis.

The first chapter of the project focused on investigating and analysing the selected industry. Public reports, investor presentations of publicly listed companies and information from subscribed databases have been incorporated in the analysis. Based on my research, overviews of the industry on Global, Central Eastern European and Hungarian levels have been created. In addition to processing the collected information, my remarks on the findings and their implications have been featured in the analyses and were welcomed by the client.

The client's main motivation was to find an investment opportunity that could perform well under and withstand the impacts of a possible economic recession. Therefore, after having investigated the market, I have assessed the recession 'proofness' of the industry. In order to understand how the industry would respond to a possible economic downturn, the performance of publicly listed companies of the sector during the financial crisis and the movements of the indices they are featured in have been analysed. Reports on M&A activity during the crisis of 2008-2009 and papers estimating the impact of the ongoing pandemic have been incorporated in the assessment as well.

The client had to assure that an investment in the selected market provides favourable exit opportunities that could be aligned with the investment horizon. To evaluate the exit opportunities, I have collected and analysed recent M&A transactions in the sector and investigated the acquisition practices and expansion strategies of the market's largest participants.

After clearing the client's three points, further investigation of the Hungarian market, including the research on and assessment of the market players have been conducted. The analysis of the Hungarian market featured information on the larger market participants and the evaluation of their financial performance. Based on the findings of the abovementioned points, I have formulated a recommendation for the position paper.

## Recommendations to the client

The final deliverable of the project summarizes the key findings of the analyses and proposes a decision on investing in the market based on the arguments expressed in the paper. The analysis highlights and attempts to forecast the potential movements of the market. Based on estimations and the researched information, I have proposed a strategy for investing in the selected market. To support the process, further analyses on market players and assessment of their financial performance have been prepared. I have compiled lists of potential investment targets based on different aspects the client has requested. I have visited the identified investment targets to evaluate the characteristics of their businesses and to gather further information to support the initiation of the negotiation process.

When proposing a strategy to invest in the market, the current circumstances had to be considered. Due to the uncertainty lingering around the global, as well as the Hungarian, economy, I have formulated a more conservative approach. By considering the findings of the

report and the impacts of the Covid-19 pandemic, I have made my final recommendation to initiate the investment strategy on a smaller scale. The final proposal could mitigate the risks associated with the uncertainties caused by Covid-19 due to the smaller scale of the investment, while enabling the client to gain up-to-date market information and to earn a deeper understanding of the industry and its stakeholders.

### Key learning outcomes

I have enjoyed working together with client, he has been very straightforward, helpful and supportive. I believe that this Capstone project provides a great learning opportunity to me, as I was able to familiarize myself with the internal processes of a private equity firm. Despite the current circumstances, regular progress report and review meetings were held. The client provided feedbacks and gave helpful insights that allowed me to deepen my knowledge in the area. The client welcomed my recommendations and arguments on the topics and took the project seriously. During the project I was able to earn a better understanding of the Merger Market and S&P Capital IQ databases. The project enabled me to experience how an idea develops into an investment decision and what aspects have to be considered to evaluate such ideas. Working together with the client provided valuable insights into the negotiation processes with potential target companies and into formulating proposals.

It has been great to be involved in a project that could have a real-life outcome resulting in an investment decision.











