



CAPSTONE PROJECT SUMMARY

Shape the investment strategy and focus of a unique buyout fund in Central Europe

In the summary, after the goal of the project will be introduced, the work done by Balint will be detailed and afterwards, the benefits of the client and the learning experience will be described.

Introduction

Balint has done his Capstone Project with a search fund called Hestia Capital and its managing director Viktor Dimitrov. Hestia's limited partner is the Swiss Novastone Capital Advisors (NCA) based in Baar, Zug. NCA was founded by a consortium of single-family offices and has several search funds across the world. Since the official launch of the fund was in 2021 April, the Capstone project started from the beginning and the goal of the work was to kick-off the 24-month research project and find favourable target companies in medical technology and precision engineering industries considering the criteria of NCA.

Steps of the work

The first step of the project was a market research to get familiar with the industry. NCA provided access to the EMIS system to read market reports and the resources also included reports by other private equity firms, as well as industry reports by consulting firms, such as McKinsey, BCG, or Deloitte. After the independent research, Balint summarized the industry growth and trend, the key drivers, the most important business models of the companies and created a Porter's five forces model. Then, discussed the outcomes with Viktor and adjusted the key finding according to that.

As a second step, a target pool was created and sent by NCA's data analyst and included companies in the relevant industry. Balint checked NCA's investment criteria and filtered the relevant companies for further analysis. Then, the data analyst sent the detailed EMIS report of that companies to Balint. The report included the income statement, the balance sheet, ratios, multiples and an EMIS credit rating. Balint analyzed the business models and the operation of the companies based on the reports and selected the possible target companies for the next step.

The third step was a more detailed analysis of the companies by generating scorecard, which is an evaluation method based on 4 categories: market, business, deal and value creation opportunities. This work has been done in Excel by Balint and then the outcome was presented to Viktor Dimitrov. The next step would include the contact of the company; therefore, it was not part of the capstone project.

Outcome of the project

The main outcome of the project is that the relevant industries have been analyzed and the possible target companies were selected.

Firstly, the medical technology industry is in the spotlight during the Covid-19 pandemic and its importance and potential in the future are unquestionable. The historical CAGR of the industry is around 5.0% providing a strong organic growth in general. Innovation is a key in the industry, companies with higher R&D spending tend to be performed better. Because of the high capital requirements and the need of special knowledge, many companies started to outsource creating companies highly specialized in R&D activities. However, outsourcing means dependence and uncertainty; therefore, Hestia considers companies with their own R&D and manufacturing as the primary target. The Hungarian medical technology industry is primarily focusing on contract manufacturing but there are well-established, innovative and successful companies that also have R&D activities. The research and analysis focused on that type of companies. Scorecard was generated about six potential target companies and four of them got the GO mark.

Secondly, the metal processing-related precision engineering industry's CAGR is around 4.0% that gives a significant growth opportunity. The Hungarian market is the same as the whole economy of Hungary: small and open. The most successful companies are mainly export-oriented, and the two important trade partners are Germany and Austria. Metal processing is a challenging industry because the elasticity of demand is very high, an economic slowdown can hurt the industry stronger. Therefore, Hestia needs to underline the importance of stability (recurring revenue,

stable margins) by selecting a target company. As part of the research, seven companies have been analyzed and four of them proposed for further steps (GO mark).

Benefits of the client

Overall, the capstone project benefited the client, since 8 potential target companies have been identified in the medical technology and the precision engineering industry. The other five companies are proposed for discussion because there is one or maybe more risks identified by Balint. These are the early days of the fund; therefore, the capstone project supports them to kick-off the research.

Learning experience

The capstone project provided a fantastic learning opportunity by getting an insight into the life of a search fund (Hestia) and a Swiss fund created by a consortium of single-family offices (NCA). To see how a fund is built from the beginning and how the research starts was a unique experience. Since NCA provided access to some useful databases, the research was high-quality and detailed. Additionally, Balint got tireless support from Viktor Dimitrov and discussed the outcomes several times that helped to improve the quality of the final product.