

Výročná správa
Annual report

2008



slovak american
enterprise fund

LETTER FROM THE BOARD OF DIRECTORS

In March, 2008, CSAEF concluded its active investment period. It represents an important milestone for the Slovak American Enterprise operations. Over the past thirteen years, as CSAEF has primarily focused its investment activities in Slovakia, we have achieved many accomplishments.

Starting in 1996 with approximately \$26M US, SAEF has invested \$37.2M in total. Of that \$34 M was invested in 25 Slovak companies in the form of equity valued at \$25 M US, and loans valued at \$9 M US. The Small Loan Program provided \$3.2M US to 26 companies. These investments created more than 3000 jobs throughout different regions of Slovakia. In addition, SAEF served as a catalyst to encourage financial institutions to make small business loans. SAEF introduced western style corporate governance practices through its portfolio companies and via the many seminars and educational programs in which it participated. SAEF counseled more than 1000 entrepreneurs, thereby helping a new generation of local professional managers that seek to start their own businesses.

Our initial investments were in agriculture, food products and wood products. As a new generation of entrepreneurs emerged, SAEF provided seed capital for start up companies in knowledge based industries such as software, IT, Internet and communications businesses. SAEF's current portfolio of early stage investments focuses on highly innovative areas with great growth potential. All of the fund's remaining investments are in the promising fields of IT, high tech and renewable sources of energy. We believe SAEF has played a meaningful part in Slovakia's economic and social transformation.

In January 2008, the Board of Directors approved three equity and loan investments. Danakta Suncol – producer of plastic thermo solar collectors; Arasid – internet on-line sale of consumer goods; and Tobogang – a movie post production technology company. Access to capital for small emerging business remains challenging. There are few venture funds in Slovakia focusing on the seed and early stage SME sector. Most Slovak banks have imposed tightened credit restrictions, and this represents a certain risk also for our portfolio companies.

Despite these challenges, SAEF remains committed to encouraging the growth of small and medium enterprises and have continued playing an active role and co-operation with important institutions influencing the entrepreneurial environment in Slovakia such as American Chamber of Commerce, Slovak Venture Capital Association, and the Association of Entrepreneurs in Slovakia.

As the Fund concludes its active investment period in Slovakia, we would like to take this opportunity to thank our colleagues at USAID, without whose support it would have been impossible to achieve progress of the Fund.

We thank the Members of our Board of Directors, steadfast in their commitment to the Fund since 1996. While SAEF's investment period concludes, SAEF is committed to remaining active and involved with the Slovak business community. Looking ahead in 2009, the Board is working on the establishment of a legacy organization which will continue the exchange of best business practices and good will between our two countries.

MACROECONOMIC DEVELOPMENT

The global financial and mainly economic crisis has inevitably impacted also Slovak economy. Slovak economic growth slowed in 2008 to around 7 %, from record 10.4 % in 2007. The latest statistics says that the Slovak economy grew by 2.7 % annually in the fourth quarter of 2008, slowing from 7.0 % in the third quarter. Like other new European Union members (EU), Slovakia has been hit by weakening demand in its main western markets (Germany, Austria, and France). Slovak exports are expected to decline and consumer sales are expected to significantly weaken in 2009.

A positive impact on Slovak economy had the implementation of EU currency (EURO) from January 1st, 2009. The currencies of all Central and Eastern Europe (CEE) countries has significantly dropped down and affected their financial stability. EURO has safeguarded Slovakia from such financial (currency) crisis.

Banks in Slovakia have imposed more stringent credit criteria and access to loans especially in real estate and construction business has declined dramatically. Together with the decline of exports (17% in December 2008), the unemployment rate is expected to grow from the current 9% to 11% or even more. Additionally, despite overall positive effect of new currency, it has on other hand also a negative impact on local labor costs. Slovak labor is now more expensive than some of its central European neighbors as those countries' currencies have weakened.

All analysts agree that the central government cannot solve the crisis on its own. However, prudent steps e.g. improving entrepreneurial environment, keeping employment as high as possible through governmental projects and avoiding lay-offs, it can reduce the negative impact of the crisis on Slovak economy. Since the local economy is small and exports oriented (EU, USA), Slovakia is largely dependent on a broader world wide economic recovery.

History

CSAEF was established in 1991 as a nonprofit venture capital fund under the Support for Eastern European Democracy Act of 1989 (the "SEED Act") in order to support the transition of the Czech and Slovak Republics to a global free-market economy. It is funded by U. S. taxpayers through appropriation by the U. S. Congress. Similar funds were established in other Central European countries, former countries of the Soviet Union, and South Africa. In 1996, it was decided that for the foreseeable future CSAEF would focus all new activities primarily in the Slovak Republic.

Mission and Vision

CSAEF is staffed by experienced professionals dedicated to the successful development of commercially viable small and medium-size private Slovak businesses, as well as to encourage private sector development. Not a passive investor, CSAEF actively monitors its portfolio companies, providing support to management as well as technical assistance grants for strengthening the investment companies' efficiency and quality controls.

Investment Highlights

During the past year, SAEF sought investment opportunities in such sectors as IT, biotech, renewable energy and other knowledge based industries. SAEF made its investments in the form of equity financing and loans. SAEF looked for opportunities in companies led by experienced entrepreneurs, who provided a sound business plan, and had growth and income potential that would have a positive impact on both employment and the environment. The Fund was fully invested in March 2008. Going forward, the Fund will manage its portfolio and provide counsel to its companies.

Milestones

Starting in 1996 with approximately \$26M US, SAEF has invested \$37.2M in total. Of that \$34 M was invested in 25 Slovak companies in the form of equity valued at \$25 M US, and loans valued at \$9 M US. The Small Loan Program provided \$3.2M US to 26 companies. These investments created more than 3000 jobs throughout different regions of Slovakia. In addition, SAEF served as a catalyst to encourage financial institutions to make small business loans. SAEF brought western style corporate governance practices. SAEF counseled more than 1000 entrepreneurs, thereby helping a new generation of local professional managers that seek to start their own businesses. Over the years, we have worked with small business owners seeking to expand their businesses or wanting to start their own businesses. We provided technical assistance and assistance to our portfolio company executives. In addition to financial resources, SAEF provided information about best management practices, financial accounting systems, and business planning. Many of SAEF's portfolio companies were acquired by third parties and in one instance, resulted in a management buy-out. We are proud that SAEF has played a meaningful part in training Slovakia's SME business leaders.

Equity Investments

In the case of equity investments, the Fund becomes a shareholder in the target company. Investments provided are aimed at accelerating the target company's growth and thus increasing the value of the company. After several years, the Fund achieves its returns from the sale of its share to a strategic investor, current management, co-owner or a third party. In addition to equity investments, the target company may also receive a loan from SAEF. Our loan financing presents a mid-term capital instrument for the development and expansion activities of the target company. One of the advantages of such financing is the possibility to defer payment of the principal for up to one year.

Expert Assistance

SAEF's goals for its portfolio companies are to achieve sustainable economic growth and to increase their market share, and revenue in their selected industry sector.

SAEF's Expert Assistance program provides experts and technical services to achieve these goals. When the SAEF investment team identifies key areas of weakness, it identifies and considers which resources are best suited to assist the companies. The resources provided through the program include technical consultants; detailed analysis and market research; training; and ISO certification.

CURRENT INVESTMENTS

ARDACO

Type of business: IT Security

SAEF's investment share: 51%

Since 2001, Ardaco delivers systems of communication and document security, web services, embedded software systems in hardware and solutions using electronic signature and encryption. The company's leading proprietary products are PDMark and QSign. PDMark is a unique patented technology developed to bring the security level of paper documents to electronic documents. QSign is a quality tool designed to protect the content integrity of electronically transmitted documents.

ARASID

Type of business: Internet services

SAEF's investment share: 65%

Arasid, Ltd. is an on-line operating company focused on sales of consumer goods through internet. The Company is focused on sales of games and gaming accessories. Moreover, it also sells computers, electronics, car accessories and tires.

CAR DEALER

Type of business: Internet services

Fund's investment share: 55 %

CarDealer, Ltd. is an on-line operating company focused on intermediation of sales of new and demonstration vehicles. The Company provides tools and programs that help dealers to sell cars and services. It owns and operates automotive Web sites, including AutoOlymp.sk, which provide information to consumers about vehicles, as well as connects consumers with local dealers.

DANAKTA SUNCOL

Type of business: Production of thermo solar collectors

Fund's investment share: 55 %

Danakta Suncol, Ltd. is a Company focusing on production of fully plastic thermo solar panels. The Company has know-how in the field of construction and design of thermo solar collectors. The collectors will be used for heating and cooling of residential buildings.

NEW DIESEL

Type of business:

Renewable Sources of Energy

Fund's investment share: 57 %

NewDiesel is SAEF's latest clean-tech investment into renewable sources of energy. This newly established company will produce Methyl Ester Rapeseed Oil by transesterification of vegetable oils. MERO can be blended with mineral diesel. It is biologically degradable and has a lower content of polycyclic aromatics, thus resulting in fifty percent lower emission of CO₂, compared to mineral diesel.

SILENTEL

Type of business: Secure Mobile Communication

Fund's investment share: 100% subsidiary of ARDACO

Silentel (established in 2002) is involved in the development and creation of applications for the protection of mobile communications and digital information. It is also concerned with developing and producing authentication equipment based on security chips. It uses the abilities of mobile phones and communication equipment based on open systems such as Symbian or Palm.

EXITED INVESTMENTS

GOTIVE

Type of business: Information Technology

SAEF's investment share: 48%

Gotive develops, produces and sells innovative enterprise mobile communicators for use in such fields as transport; equipment service and maintenance, security and rescue services, and retail mobile sales. Customers are mobile users who need to collect and analyze large amounts of data on-site.

Czech and Slovak American Enterprise Fund

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