

## **Header: Interview**

### **We'll buy profitable companies**

**Intro:** Former head of the O2 mobile provider Tomáš Budník is, along with the J&T group, setting up an investment fund targeting companies focused on nanotechnology and cyber security. In combination with bank financing, the fund will have at its disposal approximately two billion CZK. „At the moment, we are working on more than ten acquisition opportunities that are in various stages of negotiation,“ says Budník, who also plans separate investments into industrial enterprises under the banner of his family company Thein.

#### **Q1: You announced the Thein group formation in July, now you're coming up with a new investment fund with J&T group. Are these matters connected?**

Certainly not. The thought of Thein is mine and I started toying with it last year. It was realised at the beginning of this year. I focused on three areas since the very beginning. First is industry 4.0., automation and industry robotisation, and related technical matters affecting the production. Second area is ICT and related infrastructure, e.g. how companies migrate to cloud and if they are able to offer access to their data remotely. COVID-19 confirmed that this is the right direction.

#### **Q2: And the third area?**

Cyber security. Then I've logically started to negotiate financing with different banking institutions. The discussion with J&T resulted in understanding, that they also see IT and cyber security as an opportunity, so we agreed.

#### **Q3: Will Thein have independent activities parallel to the fund?**

Definitely. There is still an independent branch under my family office focused on industry 4.0. We've already acquired the Ponec metal-working company. The Thein Consulting Company, which is part of the group as well, also carries on its consulting activities. It offers companies help with digital transformation using the know-how and experience of the management team I'm building.

#### **Q4: Fund related – have you had the idea of a fund structure for the investment financing from the very beginning or have you considered other options how to obtain capital?**

I've taken measures to be able to make some transactions without the fund. I guess, it would just take a bit longer. But with a partner, such as J&T, we can aim at much bigger acquisition targets and make interesting transactions in Central Europe, or at least within the Czech Republic and Slovakia. We can use the experience from financial market that J&T has, while we deliver the knowledge from IT and cyber security.

#### **Q5: What is going to be the fund structure?**

It's going to be a classic SICAV fund (Investment Company with Variable Capital) under Czech National Bank's observation. It fulfils all regulatory requirements. My share in the fund is 65%; J&T Private Equity Group owns the remaining share. J&T Bank will take care of the distribution. It's going to be an open fund for qualified investors. We're aiming at 15% annual interest yield.

#### **Q6: How big is your intended investment budget?**

At the beginning, the fund will use my and J&T's resources, a total of half a billion Czech crowns. Other private and potentially institutional investors will gradually join in, if they are interested. We'll use these resources for further purchases, to which will add the bank financing. By default, we will communicate with large commercial banks and look for optimal sources for acquisition financing. The fund capacity, which we can aim for, is therefore not half a billion, but let's say quadruple at two billion.

**Q7: Have you preliminarily talked to some potential fund investors?**

On preliminary basis, yes, I have. The first sign-in period, however, starts in October. Hence, the main introduction of the fund to investors is yet to come, although we already have positive feedback. The number of private equity funds focused on IT in the Czech Republic is still very low. There are a lot of funds focused on real estate and start-ups, but not many specialising on IT.

**Q8: How strong is the interest for this type of company amongst investors?**

You will find a whole range of companies investing into the IT segment. They can be strategic partners of large tech companies, such as Google and IBM. Those continuously monitor potential opportunities that could fit into their portfolio. For example Microsoft recently bought a share in Israeli company CyberX, focused on cyber security, from ČEZ group this way. At least two investment formations aiming at IT operate in the Czech Republic as well. But surely we will have our place on the market.

**Q9: Was this segment a natural choice for you given your experience?**

I've been present in technology, and primarily telecommunications, for over 25 years. IT infrastructure is an area that I've been coming in contact with my whole career. Hence, I want to use all skills and knowledge that I've acquired. It would likely be surprising if I started purchasing real estate or hospitals.

**Nowadays everyone understands that cyber security is not just an updated computer anti-virus, but it's a complex field.**

**Q10: What will the typical acquisition goal of the fund be?**

It will be a Czech or Slovak company. Ideally owned by its original founders, that either lack successor or struggle to move the company forward, but they also want somebody to continue their legacy. It's also important that these companies have established customer base and a stable team of employees. I strongly believe that the main company value lies in its people. How they work with clients and the customers' satisfaction. We'll also take in account if the companies are mainly focused on the corporate segment, meaning we don't aim at companies targeting the individual end users.

**Q11: Are start-ups off the limits then?**

I'm not ruling out the possibility of an interesting profitable start-up with customers, profit and the need to become a part of a larger group coming up. But it's not our primary target.

**Q12: Do you have any profitability requirements on your acquisition targets?**

We look into companies that generate profit, ideally in long-term. Or they've continuously shown growth which then stopped. A positive economic result is important for us. At the same time, I can't rule out that the current global situation won't result in some interesting opportunities like companies getting in trouble due to – for example – customers' insolvency. However, we don't want a fund focused on distress assets. Development of the digital economics in Central Europe is key for us. Thus, we need a company with a product or customer base on which we can build.

**Q13: Are you going to connect the purchased companies, create synergies?**

We'll certainly try to unite for example back office systems of the companies. Each company doesn't need their own financial, personal or marketing department. We can do such things together. But we'll also look into how are the companies capable of working on the customers together. If we have one company for cloud services and other for cyber security, then we understandably can help each other.

**Q14: Are you already discussing specific acquisitions?**

At the moment, we are working on more than ten acquisition opportunities that are in various stages of negotiation. But don't ask about the names yet.

**Q15: When will you announce your first purchase?**

By the end of this year, I hope.

**Q16: Will you actively oversee the purchased companies?**

Yes, we want to be an active investor, exercise company management control. We can do that with the majority share ownership, we don't have to be the sole shareholder. However, ideally, we'll take a hundred per cent control.

**Q17: Is the fund time-limited?**

The fund is set up for an indefinite period, but we can imagine for example a ten-year investment horizon. That doesn't mean that we'll lock the investors in for ten years at the time, but that we'll be buying more in one phase, then build up the group in another and then, of course, we'll reach the phase of divestiture. I can imagine that phase from the seventh year forward.

**Q18: Geographically, are you limited only to the Czech Republic and Slovakia?**

That's the stepping stone. But if we're capable of expanding and exporting the Czech know-how and Czech brains somewhere, then it's the region of the former Austria-Hungary. We'll see what we can achieve.

**Q19: Was the fund preparation, and your Thein Group start altogether, affected by the unprecedented events prevailing since the spring?**

Some investment targets experienced changes for example in the profit. Some have seen decline in turnover, other's gone through significant growth in sales. While some slowed down, others are growing by tens of per cent compared to the previous year, because the situation is working in their favour. Sometimes we hear from companies that their numbers are so much better, that they now want to start the negotiations over. Overall, it can be said that the new situation means bigger and more interesting opportunities for the IT segment, than it used to be before the pandemic.

**Q20: So this is a good time to found your type of investment fund?**

A lot of people argue that it must be really hard to found anything now. I think it's about the courage to bring something new to the market. If it comes during prosperity or when people panic is irrelevant. Opportunities are always in favour of the ready ones.

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**Q21: How the banks view the acquisition funding now?**

The situation in the banking sector has already calmed down. If we had this discussion in April, I would have said that the banks were extremely cautious and were waiting it out. Although we are far from the "post-covid" period, we, as a society, have learned to understand the new paradigms. For example that there will be certain precautions in the next half a year, like wearing face masks on public transport. But it probably won't get to the radical level of stopping economic activities, as it happened in the spring. Thus, we shouldn't experience that sort of anxiety and panic from the financing banks and the banks should be more prepared to help businesses in their development. Moreover, some industry areas, such as telecommunications or IT, have shown that they can be anti-cyclic.

**Q22: Are the fund, founded with J&T, and your company Thein, going to run parallel to each other or will they be intertwined?**

Both will, logically, use the same consulting background, or have the same connection to auditors, lawyers or accountants. Each of these entities, however, will have its own management team. There will be two separate portfolios. Thein is my family office, which has no exit horizon. I invest my own earned money into it.

**Q23: When it comes to the advanced industry 4.0, which Thein focuses on, how do you perceive the purchasing opportunities?**

There are a lot of opportunities in engineering even due to the generational exchange. There is a host

of family-owned companies that are not well known, but do something interesting. I expect a bit bigger shake-up in that area than in IT and cyber security. Those are on a wave now; everyone is dealing with the migration to cloud or the IT support of home-office. The same goes for security. We've all read the articles about the hacker attacks on hospitals. Nowadays everyone understands that cyber security is not just an updated computer anti-virus, but it's a complex field. It's a bit different in engineering. Some industries, such as automotive, are under a lot of pressure. There are companies that have to revise their goals. For example, they've had orders from large foreign producers and these are now out of the picture, which has caused them issues. Everyone will have to think about automation, how to technologically and securely ensure production. That's where I expect far more structural changes. Our country is still known for assembly rather than engineering and clever ideas. I hope there will be opportunities to show that we have both skilled hands, but also smart heads.

### **Tomáš BUDNÍK**

- Faculty of Mechanical engineering graduate – Technical university of Ostrava
- Present in the telecommunication field since the 90s
- Acquired management experience in INEC, Czech Telecom and GTS. Joined PPF Group in 2011. At first, he led the IT department in the Eldorado company, starting in 2013 he managed the fourth mobile provider project.
- He became the O2 Czech Republic CEO in 2014.
- He was a part of a top management in the PPF international telecommunication group, established to focus on acquisitions business of Telenor concern in Balkan and Central Europe from 2018 up until this February
- Launched his family business Thein in June 2020.

#### **Q24: Will the expectations from the engineering companies be the same as from the IT ones?**

The logic is till the same. I already have a lot of offers from companies that were doing well for a long time before covid, then the orders stopped coming in, they have hundreds of employees but also structural issues. We can't help companies like that. We're looking into healthy businesses that are open to quick changes.

#### **Q25: Are you still in touch with what's happening in telecommunications?**

I sure am. I sincerely congratulate colleagues in PPF, who announced very positive results for PPF Telecom Group recently. Ten years ago the PPF had nothing to do in telecommunications. It's a very interesting example of how a lucrative business can be built up when you have enough finances and a good team of people.

#### **Q26: How will the planned 5G frequency auction change the telecommunications business?**

That's an extremely broad question. We would have to discuss what is 5G supposed to bring to the market. The same way it was discussed when 4G was entering the Czech market. From my perspective, 5G is a technology that allows for stable internet connection via wireless technologies.

#### **Q27: Will a new provider come along with the 5G frequency auction?**

A strong international player offering the complete package of mobile services that will compete with the current three providers is not realistic. I think it can be interesting for someone with a strategy to build a massive broadband, or for someone who sees the future in the internet of things. But it has to be a group or portfolio with a narrow focus.

#### **Q28: Do you expect a national player to come forth then?**

Yes. Or someone with an international reach, but more likely focused on a specific segment or industry. After all, such player is already present – Nordic Telecom, which already covers a part of the spectrum.