



РГУ нефти и газа
имени И.М. Губкина

AI INVESTMENTS

MOSCOW

**CORPORATE DEVELOPMENT MANAGEMENT –
VISION, INNOVATIONS, MISSION, STRATEGY, GOALS,
DIRECTORS’ BOARD, COMPETITION, CORPORATE FINANCE,
RISKS MITIGATION, RAISING INVESTMENTS, NEGOTIATIONS,
LEADERSHIP & MORAL VALUES, MANAGEMENT MOTIVATION.**



**H A R V A R D
B U S I N E S S
S C H O O L**

EXECUTIVE EDUCATION



European Bank
for Reconstruction and Development



Vassily V. MILYKH

Chairman of the Board, *AI INVESTMENTS*

MBA, Harvard business school Executive education (USA),
Alum of Gubkin oil & gas university, Wyoming state university,
European bank for reconstruction & development (EBRD), UK,
Trustee of Mirbis international business school, Moscow, Russia.

Graduated from Gubkin oil & gas university in Moscow in 1991 and was sent under the student exchange program to Wyoming university business school where defended MBA in corporate finance, strategy, international management in 1994. Completed executive education for top management at Harvard business school in Boston, MA, USA in 2013-2014.

Worked as banker at the European bank for reconstruction and development (EBRD), London, UK raising debt & equity for projects with Russia's energy major corporations - Gazprom, Rosneft, Lukoil, TNK-BP, Unified energy system, Mosenergo. Vice president for corporate finance at Alfa-bank in 1996-1998. Started his working career as a construction master at the USSR Ministry of gas industry (nowadays Gazprom) in 1988.

Gained 27 years of work experience having managed 157 international investment projects with total cost of USD 15,7 billion in Russia, USA, Great Britain, Kazakhstan, Ukraine, Uzbekistan, UAE, Hong Kong, China, Singapore, Malaysia, Kuwait, Switzerland, Netherlands, Finland, Italy, Israel, Cyprus.

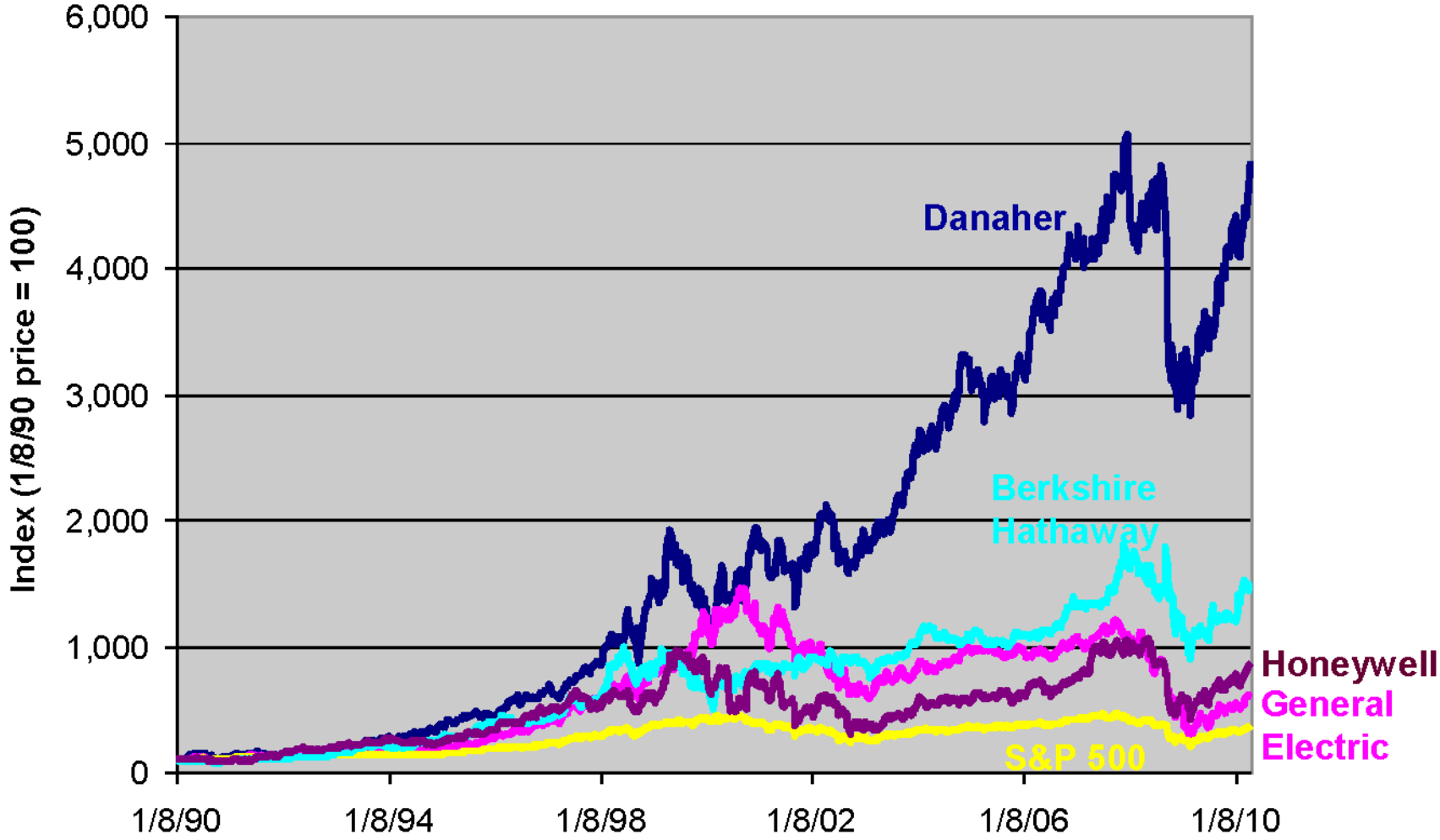
Elected as a directors' board member by 16 enterprises in Russia, USA, Cyprus, and China.

His goal is international projects (investments raising, management, corporate finance, business development, M&A) operating in Russia, EU, UAE, Saudi Arabia, USA, EU, Asia, China.

INVESTMENTS

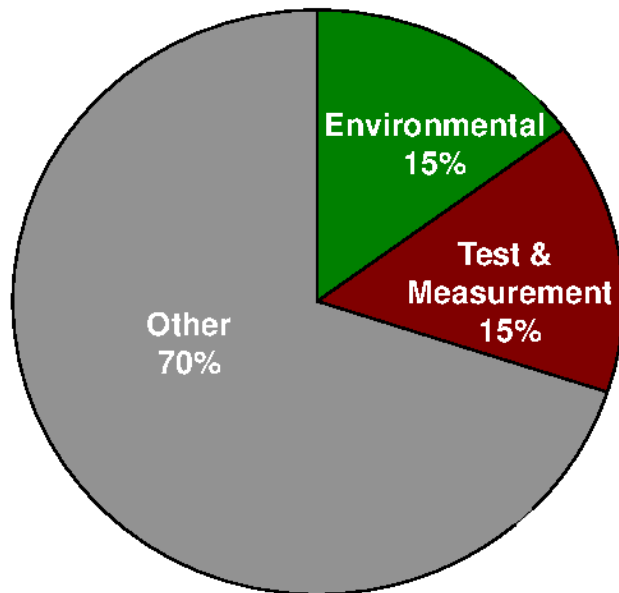
- Selection of investment projects based a company's strategy and markets' research. What markets are destined to grow faster, better; quality wiser? Consequently, investments in those markets will be more profitable and company's growth will be more effective (See Danaher).
- Market research sizing, forecasts, key players, trends. Main pitfall – wrong prognoses, chaotic constant motion. As example, whoever predicted COVID-19?;
- Main criteria – NPV, IRR, PBP, ROE, ROIC, DCF, EBITDA, WACC, DuPont formula, β , multipliers of financial results and 7 groups of coefficients to compare;
- Financial modelling. Assumptions.
- Sensitivity analyses. One parameter. Multiparameter. Monte-Carlo simulation. SWOT. Value curve. Value chain. 5 driving forces of Michael Porter. Competitive advantage. Barriers to enter a market. Costs. Differentiation. Products correlation. Value added product. Creating a product with a higher added value;
- Due diligence of innovation, technology, financial, legal, production, taxes matters;
- Risks evaluation – open, hidden, known, unknown. Johari window;
- Management of companies and projects – directors board, executives, committees on strategy, investments, audit, risks, pricing, motivation & compensation, tenders;
- Exit strategy – when to enter and when to exit. Why. How. Investment attractiveness. Put, call, options, bells, whistles, banking ratios, warrants, margins;
- Financing organizations – private, state, global, venture, crowd, sovereign funds;
- Accel partners, Andreessen Horowitz, Sequoia Capital, Artur Rock, Perkins, IDG Ventures.

Stock Performances over Two Decades



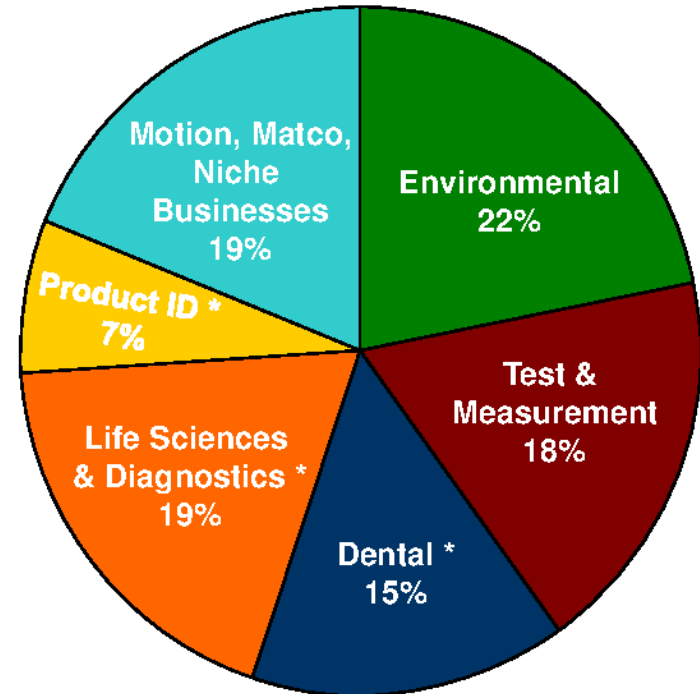
Danaher Corporation: Evolution of Portfolio

2001



Revenue: \$3.8B
Gross Margin: 38%
~30% International
E.P.S: \$1.15

2010



Revenue: \$12B
Gross Margin: 49%
>50% International
E.P.S (E): \$4.33 (16% CAGR)

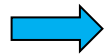
SPECIFICS OF INTERNATIONAL PROJECTS' FINANCING

- 3 major problems working on investment projects – weak management (managers' relevant work experience, specialized education, business qualities?), too high expectations on financials, undervalue competitors, market trends, risks. Corruption, as a result not market competitive with increased equipment prices, expensive services and costly decisions;
- implementation of open int'l tender procedures – 15-20% costs savings on a project;
- financing sources – private investors, global banks, sovereign funds – BRICS, Hong Kong, China, Turkey, Qatar, Kuwait, India, Malaysia, Singapore, UAE, Saudi Arabia, EU, venture funds in US, China, EU & rest of the world, angels, stock exchanges NYSE, LSE, HKSE, MOEX, SPACs;
- project finance и corporate finance;
- export financing;
- off-take agreements, escrow accounts, collateral, guarantees, comfort letters, terms & conditions, negotiations, ratings, audit, IFRS, US & UK GAAP, IPO, ICO, PPO, financial advisory, contractual law;
- documentation – feasibility study & IAS modelling with independent experts, due diligence, offering memorandum, evaluation, pitch deck;
- financial engineering – total project cost, uses & sources of funds, project's equity in kind;
- debt to equity ration, NPV, IRR, PBP, ROE, ROI, EBITDA, WACC, EPS, debt coverage, covenants, bells, whistles;
- Strategy of growth – personnel motivation & compensation based on reaching key profitability index (KPI) and personal balanced scoreboard, professional growth of company's workers, managers, leaders.

MAJOR GOAL OF A COMPANY - HOW TO ADD VALUE?

DIAGNOSTICS

- IAS statements for last 4-5 years;
- Analysis of functions and directions of company's activities (management, production, innovations, finance, accounting);
- Comparison of the company's results with the best international practices in this industry in the world;
- Evaluate competition, innovations, risks of the company;
- Business valuation;
- *Personnel training;*



STRATEGY

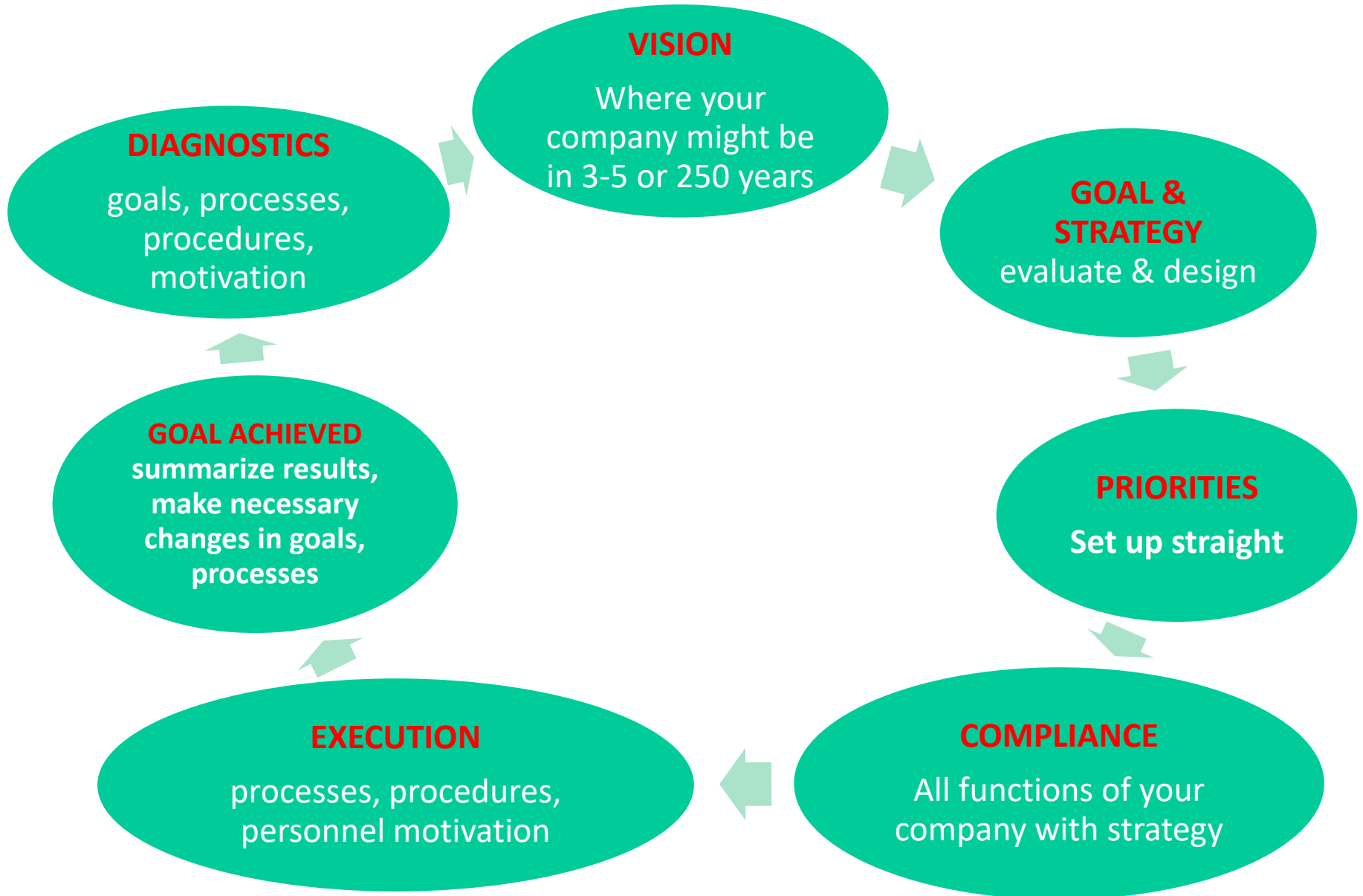
- Vision, where company can and must be in X-years;
- Develop a set of practical goals according to strategy;
- Set up your priorities straight;
- *Personnel training;*
- Compliance all functions of your company with strategy;
- Plan financial results;
- Personnel motivation and compensation based on KPI & Personal balanced scorecard.



EXECUTION

- *Personnel training*
- Reach social, production, financial results;
- Results' analysis (facts vs plan);
- Strategy update;
- Directors' board;
- Committees on strategy, pricing, tender, investments, compensation, risks, audit, innovations.

ON-GOING PROCESS ACHIEVING RESULTS



TOP MANAGER:

Moral values of leaders. Leadership. Social value of a business. Psychology. Charity.

- The key to the company's success is the professional and personal growth of the workforce;
- The 3 most important components of life development: soul, health, education.
- Personal development. What is it? 5 areas of personal development of a person - foreign languages, knowledge of various cultures of the world, health, play on musical instruments, higher education in a specialty, work experience, business qualities.
- Why do you live? What is the meaning of your life? Creating a social good?
- What is your place in life? Klay Christensen "How will I measure my life (on a mortal ...)?"
- What is your unique potential in life? How to realize it? Robert S.Kaplan
- What is happiness for you? Ask your family, confessor, friend, partner, enemy. Write down.
- Johari window. Your dead zones. Ask colleagues to name 3 weaknesses and 3 strengths of your character in relation to work. An independent look at yourself;
- What does success in life mean to you? Write.
- Are you telling the truth? How often?
- "What to do" by Dostoevsky, "The Karamazov brothers", "War and peace" by Tolstoy, Chekhov
- Many discoveries are born at the intersection of disciplines: Kutuzov, Nakhimov, "the strategy of Zhukov near Stalingrad and oncology cure", the birth of the solutions "Boyarynya Morozova", "Popov's incandescent spring", "Pavlov's dog reflex".
- Social responsibility of companies to society and charity are important components of corporate culture.

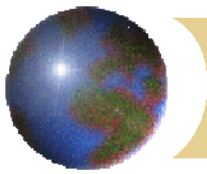
FINANCIAL COMPETENCIES TO ADD VALUE

1. Business planning (financial modeling) of the company's development scenarios depending on changes in the market situation in the main and promising markets, the company's presence, product portfolios and company projects according to the approved development strategy.
2. Organization of an effective budgetary process and control for the purpose of considering, approving and implementing balanced management decisions by types of products (services), projects, and including making decisions on the suspension and / or sale of assets that do not correspond to the company's development strategy.
3. Organization of transparent internal and external audit procedures in order to control and manage the company's risks, timely and adequate response to the challenges of the external and internal environment.
4. Carrying out constant work with investment analysts, rating agencies, auditors in order to obtain an independent qualitative assessment of the financial condition and quality of company management.
5. Carrying out a balanced credit policy in order to achieve indicators of return on equity.
6. Optimal system of staff motivation and reward (KPI & Balanced personal scoreboard).

COMPETENCIES NECESSARY FOR COMPANIES' GROWTH*

1. "How to make directors' boards more effective" by Dr. Jay W. Lorsch;
2. "Private equity and venture capital" by Josh Lerner;
3. Strategic IQ: How to create more agile companies by John R. Wells, Henry Lawrence Culp;
4. Risks mitigation for directors' boards by Dr. Nitin Nohria;
5. "3D negotiations. Mutual maximization of company's added value. Go northeast. Negotiation process. Psychology" by James K. Sebenius;
6. Business evaluation and realization of company's potential growth by Dr. Mihir A. Desai;
7. Management of corporations: Diagnostics and comparison with international best business practices. Strategy. Motivation and compensation of personnel based on achievement key profitability indexes (KPI) & personal balanced scorecard by Drs. Sunil Gupta, F. Warren McFarlan, Hirotaka Takeuchi, Stefan H. Thomke, Robert S. Kaplan, Ratan N. Tata.

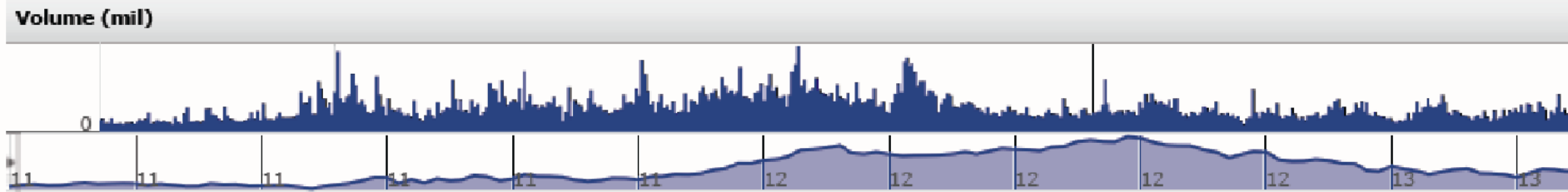
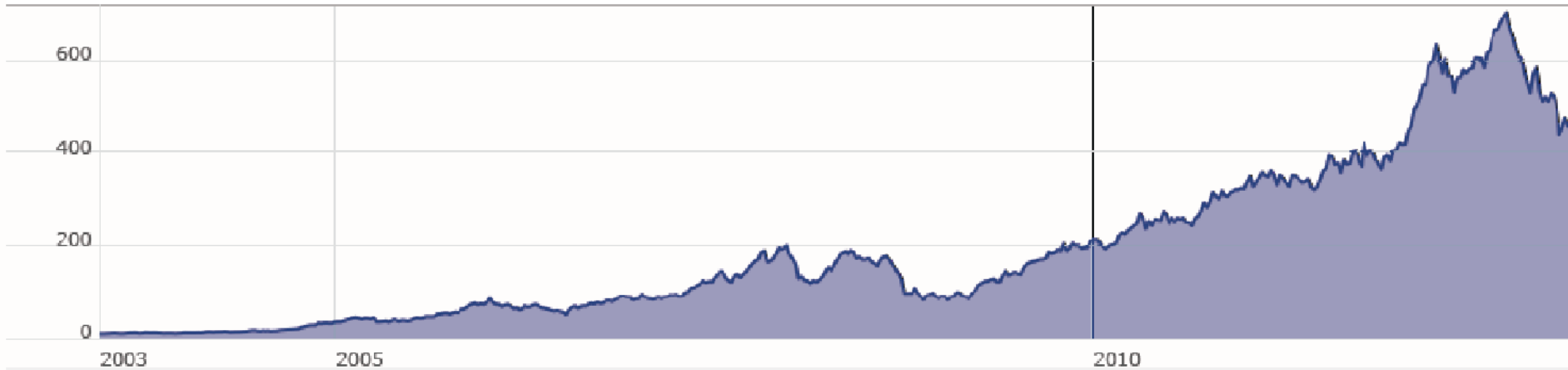
*Based on analyses of 200 cases of Fortune 500 corporations – Bill Gates & Terrapower, Arthur Rock & Intel, Steven Jobs: Apple & Microsoft, Tomas Perkins & Genentek, Zuckerberg, Brin & Google, Sam Walton & WalMart, BP, American Express, Capital One, Yahoo, Facebook, Bank of America, JP Morgan Chase, Dow, Target, HP, Pepsi-cola, Toyota, Danaher & Kaizen, Zara, Li & Fung, K-Mart, Circuit City, CarMax, Schibsted, Procter & Gamble, Best Buy, Edward Jones, Gap, Inditex, Data Systems, Nissan в Китае, Pemex, Carbon Engineering, Bain Capital, Shell, Statoil, Gazprom, Exxon, Total, British Gas, studied at Harvard business school.

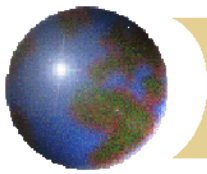


How's Apple doing?

• AAPL Price: 432.00 Day Chg: 1.95 | 0.45% Volume: 9.3 mil Compare Indicators Disp

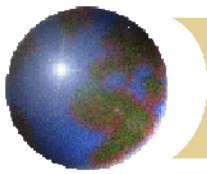
Overall Change: 4,379.69% 06/20/2003 - 06/14/2013 1D 5D 1M 3M YTD 1Y 3Y 5Y **10Y** Max Custom Rese





Why? Let's look at Financials....

Financials										
	2003-09	2004-09	2005-09	2006-09	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09
Revenue USD Mil	6,207	8,279	13,931	19,315	24,006	32,479	42,905	65,225	108,249	156,508
Gross Margin %	27.5	27.3	29.0	29.0	34.0	34.3	40.1	39.4	40.5	43.9
Operating Income USD Mil	-1	326	1,650	2,453	4,409	6,275	11,740	18,385	33,790	55,241
Operating Margin %	—	3.9	11.8	12.7	18.4	19.3	27.4	28.2	31.2	35.3
Net Income USD Mil	69	276	1,335	1,989	3,496	4,834	8,235	14,013	25,922	41,733
Earnings Per Share USD	0.10	0.36	1.56	2.27	3.93	5.36	9.08	15.15	27.68	44.15
Dividends USD	—	—	—	—	—	—	—	—	—	2.65
Payout Ratio %	—	—	—	—	—	—	—	—	—	6.0
Shares Mil	727	775	857	878	889	902	907	925	937	945
Book Value Per Share USD	5.82	6.54	8.95	11.74	16.71	25.17	35.16	52.18	82.45	126.10
Operating Cash Flow USD Mil	289	934	2,535	2,220	5,470	9,596	10,159	18,595	37,529	50,856
Cap Spending USD Mil	-164	-176	-260	-657	-986	-1,199	-1,213	-2,121	-7,452	-9,402
Free Cash Flow USD Mil	125	758	2,275	1,563	4,484	8,397	8,946	16,474	30,077	41,454
Free Cash Flow Per Share USD	0.17	0.98	2.66	1.79	5.07	9.31	9.86	17.82	32.11	43.95
Working Capital USD Mil	3,530	4,375	6,816	8,038	12,657	20,598	20,049	20,956	17,018	19,111

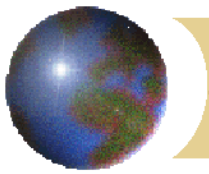


And Ratios?

Margins % of Sales	2003-09	2004-09	2005-09	2006-09	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09
Revenue	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
COGS	72.48	72.71	70.98	71.02	66.03	65.69	59.86	60.62	59.52	56.13
Gross Margin	27.52	27.29	29.02	28.98	33.97	34.31	40.14	39.38	40.48	43.87
SG&A	19.53	17.16	13.34	12.60	12.34	11.58	9.67	8.46	7.02	6.42
R&D	7.59	5.91	3.83	3.69	3.26	3.41	3.11	2.73	2.24	2.16
Other	0.42	0.28	—	—	—	—	—	—	—	—
Operating Margin	-0.02	3.94	11.84	12.70	18.37	19.32	27.36	28.19	31.22	35.30
Net Int Inc & Other	1.50	0.69	1.18	1.89	2.50	1.91	0.76	0.24	0.38	0.33
EBT Margin	1.48	4.63	13.03	14.59	20.86	21.23	28.12	28.42	31.60	35.63

Profitability	2003-09	2004-09	2005-09	2006-09	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09
Tax Rate %	26.09	27.94	26.45	29.42	30.19	29.89	31.75	24.42	24.22	25.16
Net Margin %	1.11	3.33	9.58	10.30	14.56	14.88	19.19	21.48	23.95	26.67

Profitability	2003-09	2004-09	2005-09	2006-09	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09
Asset Turnover (Average)	0.95	1.11	1.42	1.34	1.13	1.00	0.99	1.06	1.13	1.07
Return on Assets %	1.05	3.71	13.62	13.83	16.43	14.89	18.92	22.84	27.07	28.54
Financial Leverage (Average)	1.61	1.59	1.55	1.72	1.74	1.88	1.50	1.57	1.52	1.49
Return on Equity %	1.66	5.94	21.29	22.80	28.52	27.19	31.27	35.28	41.67	42.84
Return on Invested Capital %	1.55	5.94	21.29	22.80	28.52	27.19	31.27	35.28	41.67	42.84
Interest Coverage	—	—	—	—	—	—	—	—	—	—



Look at their CCC!

Efficiency	2003-09	2004-09	2005-09	2006-09	2007-09	2008-09	2009-09	2010-09	2011-09	2012-09	TTM
Days Sales Outstanding	39.13	33.95	21.86	20.29	21.96	22.81	24.60	24.82	18.34	19.01	15.25
Days Inventory	4.10	4.76	4.91	5.79	7.09	7.31	6.85	6.95	5.18	3.26	4.19
Payables Period	83.77	78.97	59.62	68.77	96.25	89.74	79.02	81.31	75.48	74.39	56.95
Cash Conversion Cycle	-40.53	-40.27	-32.84	-42.70	-67.19	-59.61	-47.58	-49.53	-51.96	-52.13	-37.52
Receivables Turnover	9.33	10.75	16.69	17.99	16.62	16.00	14.84	14.71	19.90	19.20	23.94
Inventory Turnover	89.09	76.69	74.35	63.07	51.47	49.90	53.28	52.51	70.53	112.12	87.18
Fixed Assets Turnover	9.62	12.03	18.28	18.41	15.42	15.15	15.86	16.89	17.26	13.48	14.17
Asset Turnover	0.95	1.11	1.42	1.34	1.13	1.00	0.99	1.06	1.13	1.07	0.98