

The Investor



Based in Kyiv, Ukraine, Horizon Capital is a private equity firm in emerging Europe, backed by over 40 institutional investors. With a tenure of over 28 years in the region, the firm manages six funds focused on Ukraine and Moldova. Horizon focuses on fast-growing, export-oriented companies that leverage CEE's cost competitive advantage to generate global revenues and select new economy champions.

FUND NAME

Emerging Europe Growth Fund III

FUND SIZE

USD200m

TOTAL AUM

USD1.2b

The Company



Headquartered in Poltava, Ukraine, Avrora is a dollar store chain operating over 800 locations, with products ranging from home and hygiene supplies to food and clothing. The company was founded in 2011 with a commitment to support local Ukrainian manufacturers, which today represent 68% of company sales, while providing accessible goods to all Ukrainians irrespective of income. During the Russian invasion of Ukraine, the company has maintained strong revenue growth while supplying Ukrainians with essential, inexpensive goods.

LOCATION

Ukraine

SECTOR

Retail

WEBSITE

www.avrora.ua

DATE(S) OF INVESTMENT

JULY '21

AMOUNT

USD20.2M

STAKE

MINORITY



In 2011, Lev Zhydenko, Taras Panasenko and Lesya Klimenko set up a small discount retail outlet in the Poltava region of Ukraine before quickly expanding the brand to new locations. From 2014 to mid-2021, the company grew from 54 to over 600 storefronts and increased its revenue at an 80% CAGR, all while maintaining an 11-16% EBITDA margin despite local currency depreciation and an economic recession. Since its founding, the company has been committed to sourcing products from Ukrainian producers to support local manufacturing and insulate consumers from FX-related price increases.

In 2021, the Horizon Capital team was deploying its third fund, dedicated to Ukrainian export-heavy businesses. Witnessing Avrora's speedy growth, Horizon recognized an opportunity to build a CEE regional champion in the recession-proof discount retailer segment.

The Deal

Horizon Capital invested in Avrora in July 2021, leading the company on key strategic initiatives. In response to heightened consumer demand for e-commerce options, Horizon led the development of Avrora's digital strategy and helped assemble a technology team to build out its digital ecosystem. Horizon also helped assess neighboring markets for expansion, identifying Romania as the first target. The company is actively pursuing entry into Romania despite the ongoing Russian invasion of Ukraine.

To deepen Avrora's supply of locally produced goods, Horizon assisted in forming a committee to source and manage relationships with domestic manufacturers. The investor also introduced the company to the CEE leadership at Procter & Gamble, which manufactures several products in Ukraine. Local producers now represent about 68% of Avrora's sales, compared to 59% before the investment.

Inclusive & Sustainable Growth

Horizon spearheaded an initiative to change Avrora workers from private contractors to full-time employees, requiring the company to pay a social contribution tax that covers retirement and medical benefits. Over 90% of Avrora's 6,900 workers are now full-time employees. The investor also helped create an audit committee and organized an annual financial audit.

Horizon organized an ESG audit and helped establish an ESG committee to implement an environmental and social management system. As a result, the company developed a program to minimize waste and recycle all packaging and defective goods in Avrora's warehouses. In the first half of 2022, Avrora sorted and recycled 318 tons of waste.

Horizon has supported Avrora in executing emissions reduction incentives for company employees. Through the Bla Bla Car Avrora program, employees receive bonuses for providing carpool rides to and from work for colleagues, resulting in 250-500 carpooled trips per month. Employees can also purchase a bicycle in installments with funds provided by the company.

Outcome/Outlook

Despite the enormous challenges of the Russian invasion, Horizon and Avrora's leadership remain committed to growing the business. In addition to reopening closed stores, the company plans to open 300 new locations in 2023. Horizon and Avrora are preparing to launch the company's international expansion, first in Romania, with the goal of generating at least one-third of company revenue from outside of Ukraine by 2025. The company will also focus on building out its e-commerce channel and digital ecosystem, with intentions to list on a European exchange by 2026. ●



The War in Focus

Horizon Capital played an instrumental role in Avrora's crisis management following the Russian invasion of Ukraine in February 2022. Over 100 of Avrora's 863 stores were destroyed or closed in areas occupied by Russian forces. The company helped evacuate employees from highly affected areas like Kharkiv, the country's second-largest city, which has been a major target for Russian air and missile strikes.

The company has leveraged its logistics infrastructure for humanitarian relief efforts. In collaboration with aid organizations, Avrora launched the Vinnytsia Humanitarian Hub, which has processed over 1,100 tons of aid supplies from 16 countries so far. The company helped organize donation boxes in stores, as well as the delivery of goods to severely affected areas. Avrora partnered with the Red Cross to distribute vouchers for essential goods to the most vulnerable segments of the population.

Avrora's employee wellbeing initiatives have included an emergency hotline to connect employees with relatives, twice-weekly town halls where safety information is disseminated and employees can discuss concerns, aid packages for workers that have lost relatives and equipment such as backpacks and night vision devices for employees in the armed forces.

In its Poltava headquarters, the company has organized a bomb shelter and free psychological services for workers. After schools closed in the city, Avrora opened a kindergarten for children of employees that teaches an average of 40 attendees per day. The company also offers a stipend for office workers opting to relocate to western Ukraine.

Avrora is a vital source of food and hygiene supplies for hundreds of thousands of Ukrainians, so the company has prioritized keeping stores open and reopening closed locations after territory is reclaimed. As supply chains were disrupted, the company identified alternative suppliers in key categories like food. It also established new logistics routes, rerouting Chinese imports through a port in Gdansk, Poland.

"People depend on our products, so we are operating as many locations as we can without collaborating with occupiers. When we closed a store less than two miles from the front line in Pechenihy, the community organized a letter-writing campaign calling for us to reopen it, so we did."

—Taras Panasenko, CEO & Co-Founder, Avrora

Despite store closings, disrupted supply chains and increased logistics costs, Avrora has maintained a ~15% EBITDA margin during the invasion. The company grew its revenue by 51% in USD terms and nearly tripled its EBITDA in Q1-Q3 2022 compared to the same period in 2021.