

17 March 2017

Credit Rating

Rating
(National): Long Term

(TR) A-

Outlook:

Negative

Rating
(National): Short Term

(TR) A2

Outlook:

Negative

Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş.

Küçükbakkalköy Mahallesi,
Vedat Günyol Caddesi, Demir
Sokak, No: 1-A, Kat:2, Ataşehir –
İstanbul

Telephone : +90(216) 524 34 84

Facsimile : +90(216) 576 22 26

GÖZDE GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI A.Ş.

Rating Summary

Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş. (Gözde Venture Capital / the Company / the Trust) is a publicly held joint-stock company established as having registered capital and taking its issued capital as basis and directing it toward private equity and venture capital investments within the principles set forth in Capital Markets Board regulations on Venture Capital Investment Trusts (VCITs) (Communiqué Serial: III No: 48.3). The basic objective of the Company is to make mid- and long-term investments in companies with growth potential and financing needs established or to be established in Turkey.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, GÖZDE GİRİŞİM SERMAYESİ YATIRIM ORTAKLIĞI received a long term rating of (TR) A- and a short term rating of (TR) A2.

Outlook

Gözde Venture Capital has subsidiaries operating in the finance, retail, industrial minerals, manufacturing, fast-moving consumer goods (FMCG), package and wholesale trade sectors. The Company targets to invest in non-food companies having financial and operational restructuring needs which promise comparably rapid and higher returns. The Company's major shareholders are Yıldız Holding's principal stockholders, Kökler Yatırım Holding A.Ş. and Üs Holding A.Ş.

The revenue of the Trust consists of the sales income of its affiliates in its portfolio and the revaluation gains of financial investments. The Company attained a net profit of approximately TL 116 million in 2016. As a result, the share of equity in total assets rose from 51% to 55%. The Company has a total short-term debt of TL 428 million of which TL 253 million is to financial institutions and TL 175 million to affiliates. Even though the Company has a total debt of TL 758 million, TL 407 million of this is owed to affiliates. Hence, it is favorable for the Company to receive funding from Yıldız Holding's subsidiaries.

Gözde Venture Capital funds its investments mainly with foreign currency denominated financial resources. However, political and economic uncertainties in Turkey, the ongoing fluctuations in emerging markets due to the expectation of the Federal Reserve to raise interest rates in the future and the devaluation of the Turkish Lira in 2016 exposed the Company to a significant amount of foreign currency loss and its resource generation capacity was suppressed. The functional currency of two of its affiliates, Kümaş Manyezit and Penta Teknoloji which has a share of 8.68% in the Company's financial investments, is the US Dollar. This helps to offset the exchange rate risk but the net foreign currency position of the Company shows a TL 414 million net foreign exchange deficit in the latest financial statements. However, according to the Company's budget assumption, exchange profits or losses are not predicted in 2017.

The Company' short and long term outlook is determined as 'negative' due to the geopolitical risks in Turkey's economy and uncertainty and risks on exchange rates.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. This analysis is based on genuine statistical study of SAHA, covering venture capital investment trusts in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered "investment worthy" by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer's capacity to fulfill its obligations may weaken due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered "speculative" by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer's capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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Contact:

S.Suhan Seçkin
suhan@saharating.com

S. Mehmet İnan
minhan@saharating.com

Ömer Ersan
oersan@saharating.com

Address:

Hacı Mansur Sk. No:3 Meşrutiyet Mahallesi,
34363 Şişli / İstanbul, Turkey